BANKING

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MAY 1937

The Condition of BUSINESS

BUSINESS MOMENTUM. Although there are enough unfavorable factors affecting industry and finance to chill the enthusiasm of the most ardent optimist, the volume of industrial production and the pace of commercial activity continue without abatement. The most striking feature of the current outlook is the momentum of the advance.

But it is apparently a definite policy of the Government to head off any conditions that suggest a boom. In this endeavor the Federal officials have the general support of the business community.

SOME CONFLICTING POLICIES. Uncertainty growing out of conflicting policies in business and government should be noted as chief among the unfavorable influences of the moment. For many months every effort has been directed toward building up the volume of business, increasing productive activity and strengthening commodity prices. Now, with prices approaching the sought-for level and industrial output nearing the point called normal, some steps are being taken to remind business that booms are not desirable, while other factors work in the opposite direction.

In the case of bank credit the conflict of action or policy is notable. Before the recently ordered increase in reserve requirements had become fully effective, the Reserve System was called upon to put more money into the banks by the purchase of Government securities in open market operations.

Prices of certain commodities actually were getting out of reasonable relationship with others, and no doubt a word or two of caution was needed. Excess reserves, as everybody knows, were far too high and a reduction was necessary to forestall possible misuse of funds in speculation. If Government bonds were to be marked down, the process by all means should have been orderly. To many observers, however, the real point in numerous recent happenings is the emphasis which has again been placed on uncertainty.

BANKING AND FINANCE. These important sectors of the economic front continue to be careful observers of governmental credit and fiscal policies—specifically, in such matters as the price of Government securities, the resumption of "new money" borrowing by the Treasury, and the attitude of the Administration and Congress toward Federal expenditures.

"GOVERNMENTS". With regard to Federal Government securities, there has occurred on the one hand a rather substantial liquidation by banks and other investors, and, on the other, the purchase of Federal paper in the open market by the Reserve banks.

Between January 13, when the selling wave started, and March 31, when it was halted, reporting member banks in the System reduced their holdings of Government direct obligations by $907,000,000. The sharpest break came immediately after the mid-March financing, for the reduction in the last week of that month amounted to about $300,000,000. The following week, reporting banks increased their holdings by $124,000,000, this apparently being the result of the market's steadying after the Reserve Board had announced its buying policy.

OPEN MARKET POLICY. How far the Reserve will have to go in upholding the market is problematical. It seems unlikely that there would be any necessity for maintaining the rate of operations prevailing in the first week when purchases approximated $29,000,000; however, the buying will be sufficiently substantial to carry out the Reserve policy of "exerting its influence toward orderly conditions in the money market" and facilitating "the orderly adjustment of member banks to the increased reserve requirements".

EXCESS RESERVES. Until these current uncertainties as to bond prices, money rates and fiscal policies are cleared up bank management difficulties are likely to be numerous. The open market policy of the Reserve Board will doubtless result in a substantial increase in the amount of excess reserves on hand after May 1, the latest estimate being around $700,000,000 instead of the $500,000,000 originally anticipated. At all events the excess will be sufficient to maintain easy money conditions indefinitely. Otherwise the outlook for better banking conditions may be described as favorable. Demands for credit for business are improving and "other" loans in reporting member banks are steadily increasing. Bank deposits will doubtless take another spurt as the Government renews its borrowing.

LABOR. Decisions of the Supreme Court upholding the Wagner Act and the Government's authority in other social welfare matters seem to have been accepted by the business world as offering the probability of an ultimate orderly settlement of such questions. At all events, the decisions scarcely rippled the surface of business, although their historical and social importance was fully appreciated.

The "sit-down" strike situation shows signs of clearing but still causes uneasiness. Attacks on business in Congress are perennial irritants and uncertainties in the foreign exchange situation are growing.

STEEL. The steel industry has maintained its output during the past month around 90 per cent of capacity, having advanced steadily to that point during the 10 weeks ending with mid-April. Production in March was the highest in the industry's history and there is no let-up in sight. Orders fell off slightly during the past month, but business already booked will keep the mills busy at or near full capacity well into the third quarter. Prices for the next quarter are expected to remain at substantially the present level.

CONSTRUCTION. Building contracts continue at a level running about 25 per cent above the same period last year. Private construction has more than doubled and in recent weeks has been running more than twice public construction.

Foundry equipment has more than doubled. Machine tools and machinery continue about 50 per cent above their levels of last year although not up to the high volume registered in the closing months of 1936.

TEXTILES. The textile industries continue operating at their maximum. The consumption of cotton in American mills in March was the highest on record with no lessening of volume anticipated. Rayon mills are running at capacity and are expanding their production equipment as rapidly as possible. Woolen mill activity is reported as averaging about 5 per cent above that of a year ago.

RETAIL TRADE. Retail buying has been somewhat spotty as a result of labor unrest, unfavorable weather and a reaction from an early Spring holiday season, but the volume continues well above that of the corresponding period of last year even though the latter included the pre-Easter season. Wholesale markets have experienced the usual seasonal lull but inquiries indicate an early resumption of buying for the late Spring and early Summer trade in greater volume than last year.

The dangerous belief

A DANGEROUS belief fills the heart of many a young father—oddly enough *it is his belief in himself.*

The belief that he will earn more money tomorrow than he earns today—*"then I'll start tucking some away,"* he thinks. The belief that he will someday, by ways of his own designing, set aside sufficient money to educate his children, to provide for his own old age—*"no hurry about that,"* he believes.

Too often it is a too-great belief. A man's faith in his ability to accumulate money can be so strong that it blinds him to the need of *doing* anything about it.

Everywhere there is proof of that. For all around us we see people whose belief in themselves has been great, whose earnings have been ample, but whose plans for accumulating money have been put off—people whose good intentions died of complacence.

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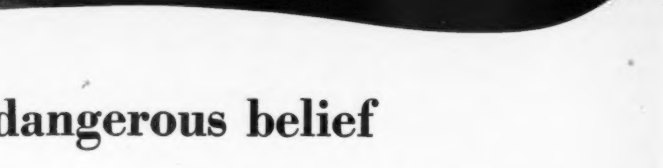

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WASHINGTON BRIEFLY

Washington, D. C.

WHAT really hurts about the below-estimate income tax payments in the March quarter is not merely the failure of perhaps $250,000,000 of revenue but also the fact that it forecasts a similar failure from the same source in the next fiscal year. And the Government has expected to raise an additional billion dollars on this account, lifting the total income tax revenue to $3,365,000,000. Now it is found that it cannot be done.

* * *

IT IS REALIZED that the failure is not due to a lack of taxable income but to the fact that much of it has been diverted by the corporate excess profits tax and, above all, by riding the rich too hard. In short, income taxes on the basis of the present law are reaching or have reached the point of diminishing returns.

* * *

TO GET MORE MONEY the Government must tax more people. When more people are taxed there will be more demand for economy. It is a harsh method of preaching economy, but it is probably the only effective method.

* * *

NOT ONLY BUSINESS but even the Reserve authorities—perhaps with White House permission—are dead-set on stopping inflation by at least a near approach to budget balancing. Even Congress has become almost as much afraid of mounting prices as it is of taxes. Hence the disposition of the two Houses to shy away from such expenditures as $100,000,000 called for in Senator Harrison's education bill, the $50,000,000 called for in the farm tenancy bill, and so on. The significance of the revolt is that Congress now realizes that the emergency has passed and that what it now does should be done on the basis of permanent policies.

* * *

EVEN SECRETARY WALLACE views the probability of a fall in the cost of foods in the course of the next few months, as new crops come in and the effects of drought are overcome, with equanimity. After all, why not? The farmers will yet receive good prices and—the milk in the coconut—half a billion dollars in benefits from the Government for taking proper care of their farms.

* * *

THE DRAFT FOR A NEW N.R.A., which will be introduced as soon as the experts have digested the Supreme Court decisions on the Wagner Act and other matters, is expected to depend largely upon state legislation. Where a state passes an act regulating commerce and industry, the Federal Government will prohibit interstate commerce in goods which represent a violation of the state act. This may cover goods made by child labor, under sweat shop conditions, involving price discriminations, sales below cost and other recognized evils.

* * *

THE FEDERAL ACT itself will regulate interstate commerce by providing penalties for unfair competition either between persons engaged in interstate commerce or between the latter and competitors, whether engaged in interstate commerce or not. The act would cover all forms of competition heretofore held to be illegal, other practices now generally regarded as unfair and all forms of deception of the public. The proposals are considered as Supreme-Court-proof, even disregarding the recent decisions.

* * *

THERE IS NOT NOW nor has there been any development of late which would indicate any intention on the part of the Federal Government to alter its buying price of gold.

* * *

WHAT IS SIGNIFICANT about recent rumors which have upset security markets in this country and commodity markets abroad is the fact that the Government not only has the power to alter the gold content of the dollar but that the business of the entire world depends in a large degree upon the policy Washington will follow.

* * *

THE RURAL ELECTRIFICATION ADMINISTRATION, which got nowhere during the last fiscal year, is rapidly getting somewhere this year. It has allotted approximately $47,000,000 of the $50,000,000 fund allowed it. It is compelled by law to retain the other $3,000,000 for states which so far have not drawn upon its funds.

* * *

A $50,000,000 OUTLAY is a considerable item even in so great an industry as electric light and power, but the chief benefits of the R.E.A.'s operations seems to have been in stimulating private companies to extend their services to the farmers by private financing in a cheap money market.

* * *

THE PERMANENT civilian conservation corps of 300,000 members, with 15,000 additional for Indians and residents of insular possessions, will cost the Government from $350,000,000 to $375,000,000 a year. This comes rather close to the $395,000,000 estimated for the United States Army for the next fiscal year, including large outlays for military equipment and munitions. Even at that the money may be well spent.

* * *

THERE IS A BLOC in the membership of the House of Representatives, reported at last accounts as including 126 members, which proposes to buy up the stock in the Federal Reserve banks now owned by the 7,000 member banks and operate the Reserve System as a department of the Government.

* * *

AMONG OTHER FEATURES of the scheme is to extend rediscount privileges to all members of the F.D.I.C., provided they carry their reserves with the Reserve System; to have all examinations of the banks made by Government agencies at Government expense; and to turn the profits of the Reserve banks into the Federal Treasury. One of the ideas back of the proposal is that "private banks should not control the issuance of money".

GEORGE E. ANDERSON

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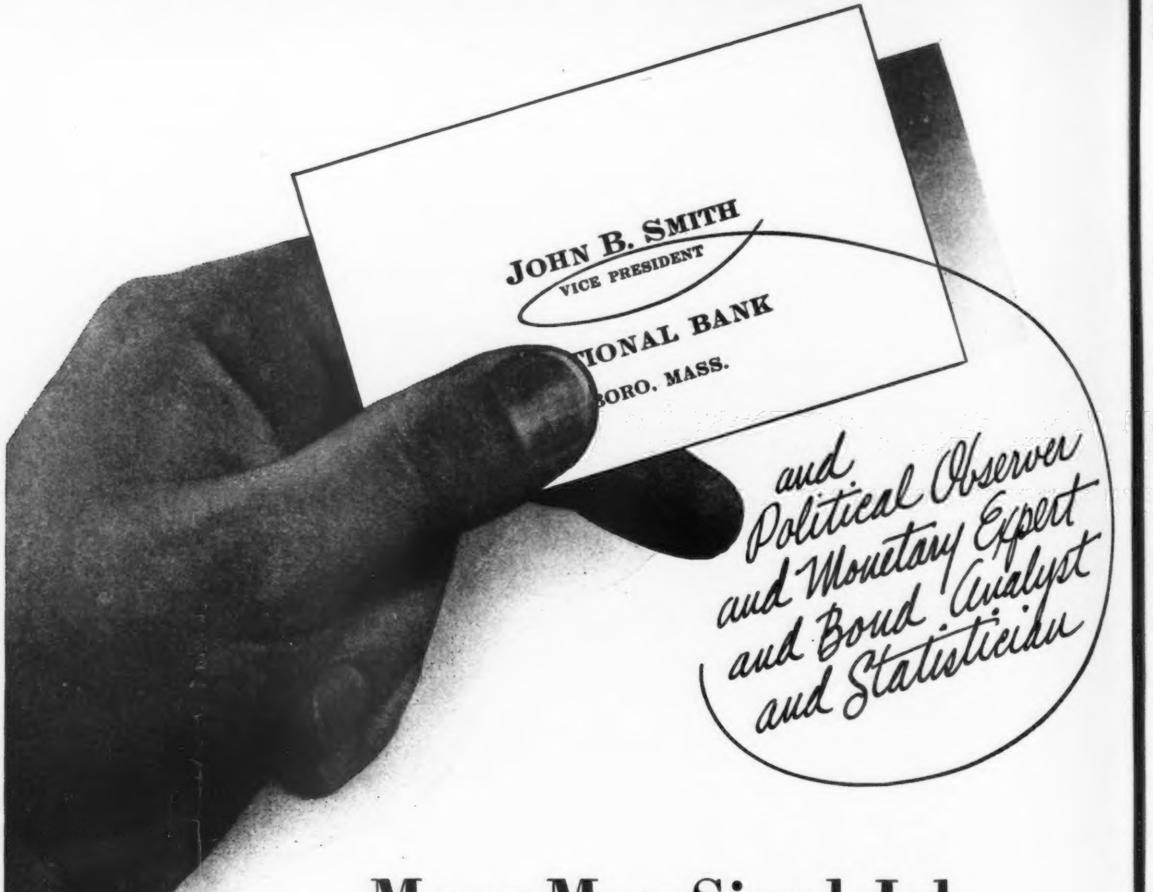

Many-Man-Sized Job

Merely to keep abreast of all that is new in just one phase of investing today is a man-sized job. To penetrate the maze of investment facts and figures surrounding all the issues in the average bank's portfolio—to interpret each day's news correctly in terms of its investment significance—to plan soundly for a highly uncertain future is beyond the capacity of any one individual, even though he devote his whole working day to it. To expect one officer to manage your bank's investments *as a part-time job* is to ask the impossible.

Successful management of a bank's bond investments demands the facilities, man power and organized knowledge of a group of investment specialists to keep on top of every situation and judge its effect on the value of individual securities. That is the job Moody's Bank Supervisory Service is doing for many banks today.

This service will bring to your bank a staff of competent, mature specialists scanning the day-to-day investment horizon for investment opportunities, continuously pointing out investment pitfalls—*plus a personal counsellor* to interpret their findings to an investment plan in terms of your bank's needs for income, liquidity, diversification.

Moody's Supervisory Service is not an emergency measure—not even a one-or-two year measure. It is a constant necessity which repays its modest fee many times over. May we explain to you or your directors how this service can help your bank? Your inquiry involves no obligation.

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Recovery Fact-Finding

COMPILERS of *The Recovery Problem in the United States* (Brookings Institution, Washington, D. C., $4) have produced a study that takes its place at the top of depression analyses. The Brookings fact-finders had advantages, of course, over individual researchers and students, for the work was apportioned among many competent persons at whose disposal were the resources and facilities of a great institution. But the importance of the subject justified so expert an effort, and the results, made available through this report, are eminent.

The analysts divide their book into three sections. First they review world economic changes of recent years, thus providing the international setting for America's share of the depression. Next they take up in detail the ways in which the depression affected various divisions of our economic system: employment and production, wages and prices, government and private finance, and international trade and financial relations. Part III considers the readjustments required for recovery, and presents a number of conclusions.

The book summarizes several favorable and unfavorable factors in the present situation — that is, the situation as it existed late last year — and on the basis of this recapitulation, the book offers "the essential requirements for a consistent program of further recovery". Summarized, they are: a balanced Federal budget; stable foreign exchanges; extension of the reciprocal trade agreements; preservation of "the generally favorable ratio of prices and wage rates"; maintenance, generally speaking, of "prevailing hours of labor, as the only means of meeting the production requirements involved in restoring during the next few years the standards of living of the laboring masses and promoting the economic advancement of the nation as a whole". Also, industrial practices and policies — public and private — which "tend to restrict output or to prevent the increase of productive efficiency", should be eliminated. Another requirement is a shift in the emphasis in agricultural policy "from restricted output and rising prices to the abundant furnishing of the supplies of raw materials and foodstuffs required by gradually expanding markets".

Some 50 pages of the 709-page volume are devoted to appendixes which provide useful supplementary information. One is a thumb-nail chronological sketch of government recovery legislation in 14 countries. There are also extensive data on world trends, employment, production, wages, durable goods, prices, public finance, private debts, and international trade and finance.

* * *

In *Sugar* (Macmillan, New York, $3), John E. Dalton makes what he calls "a case study of Government control". Although the book is an account of the fortunes and misfortunes that have befallen one commodity, its primary purpose, the author makes clear, "is to ascertain the past and present relationship of economics to politics in a major industry, sugar, in order that these findings may be checked against the convictions commonly held by business men in the larger realm of business and government."

Mr. Dalton was chief of the Sugar Section, Agricultural Adjustment Administration, in 1934 and 1935 when the Sugar Act was new. He has also been on the faculty of the Harvard Graduate School of Business Administration.

His point of view is "that discussion of the merits or demerits of the enlargement of Federal power in such general, vague, and elusive terms as 'private initiative', 'control of economic forces', 'interference with property rights', or 'planned or planless economy', is not conducive to a sane and effective analysis of a difficult problem. . . . What is sorely needed is specific inquiry into a long list of cases where government and business have come into contact. A thorough knowledge of what has happened and what is happening is necessary before any sound conclusion can be reached as to what should be done." Mr. Dalton makes such an examination in the case of sugar, and then draws some generalizations.

He holds no brief, he says, for proposals that government "should plan for industry", and advances no argument for a larger Federal bureaucracy. "Quite on the contrary, the public interest, in many instances, is likely to be served by a withdrawal of Government intervention. But if there is to be a withdrawal, it will only be brought about when the conditions in the industry, contemporary and historical, make such a withdrawal possible."

* * *

Business Executive's Handbook (Prentice-Hall, Inc., New York, $7.50) provides, specifically and concisely, a vast amount of information about the mechanics of commerce. Its forms, tables, short cuts, methods, suggestions and explanations answer many questions and problems in such subjects as advertising, credits, purchasing, selling, insurance, direct mail, business correspondence and corporate procedure.

Another recently published "how" book is *Managing for Profit* (McGraw-Hill, New York, $3.50) by C. E. Knoeppel with the collaboration of Edgar G. Seybold. The volume discusses newly developed aids to management, among them methods of determining profit trends, variable budgeting, sales planning and cost accounting.

Books in Brief

If Inflation Comes. By Roger W. Babson. (Frederick A. Stokes Company, New York, $1.35.) Mr. Babson, in a readable, chatty little book of coat pocket size, tells what you can do about it. The best hedges, he finds, are also the best values in life — and they cost nothing.

Consumers Cooperative Adventures. By Harlan J. Randall and Clay J. Daggett. (Whitewater Press, Whitewater, Wisconsin, $2.) A book of case studies covering many cooperatives in Great Britain and the United States. An impartial description of the work being done by individual societies.

The first 1937 edition of the *Rand McNally Bankers Directory* (Chicago, $15) is also the 122nd edition of the well known Blue Book. It offers two improvements: "streamlining" of the index and a new section giving the complete membership of the Investment Bankers Association.

Banks Repay R.F.C.

Washington, D. C.

EXCEPT for the comparatively small amounts owed the R.F.C. by a few state banks which are going concerns, the indebtedness of banks generally to the corporation now consists entirely of the obligations of institutions in the course of liquidation.

As has been stated by Jesse Jones, chairman of the corporation, the job of aiding banks has not only been completed from the corporation's standpoint but also has been completed from the standpoint of the banks, so far as loans go, and is being rapidly liquidated with respect to issues of preferred stock. As compared with their position when the preferred stock and capital notes were issued, the vast majority of the banks would now have ample capital funds without such aid from the R.F.C., but the tremendous increase in deposits in the past three or four years has altered their position and without the capital subscribed by the R.F.C. many institutions would now be insufficiently capitalized.

With the improvement in the position of the banks resulting from the recovery of security values and the increasing collections from old loans previously written off, however, the outlook has changed considerably and many banks are able to secure the capital they need from their own stockholders. Several large banks in the central and western states have issued new stock to the public to take up stock held by the R.F.C., and the latter usually has underwritten such issues, agreeing to take such portions of the new issues as the public fails to absorb. This is the plan also followed in issues put out primarily for subscription by stockholders, who also are aided by loans from the corporation.

Inasmuch as the dividend required from banks on capital stock held by the R.F.C. is only 3½ per cent until 1940, preferred stock issues held by the corporation are no burden to banks which need the capital. On the other hand, improvement in the position of banks in the past year or so has been so marked as to promise substantial dividends in the near future, even in those institutions in which dividends have been lacking for several years; and with the removal of the double liability of stockholders there is every reason to anticipate that private capital will soon flow freely into all banking institutions which require or can use it.

The Legacy of

Washington, D. C.

AT the inauguration of Government insurance of loans for the modernization and repair of homes under the National Housing Act in August 1934, less than 1 per cent of all the banks were either organized or prepared to make personal loans on character and income of the type necessary to make the Act a success. When the operations of the Federal Housing Administration under this law were wound up as of March 31, with 30 days allowed for last-minute reporting of loans made, substantially half of the 14,000 commercial banks had made such loans and a large majority of these institutions are continuing such loans without Government insurance.

In the course of the two-and-a-half-year campaign, commercial banks have made these insured loans to the extent of approximately $420,000,000, over half of which are still running. As of April 3, the total number of insured loans made by all lending agencies was 1,419,612, and the amount was $543,812,295. Loans reported and insured during the marginal period up to April 30 have probably increased the total number to around 1,435,000 and the total amount to $560,000,000.

A BROAD PROGRAM

THE housing authorities estimate that as a result of the campaign carried on to stimulate this business, particularly the work of the local committees, the actual amount of modernization and repair work done on a cash basis or financed otherwise than through these insured loans is upward of $2,000,000,000. Much of this business has been done through commercial banks. The insured loans have been made in every state and territory, in all but a score or so of the 3,100 counties in the country, in every incorporated place of 2,500 inhabitants or over and in many thousands of smaller communities. There is not a bank in the country which has not been or could not have been affected by the whole movement.

There is considerable significance in tracing the part commercial banks have had in this campaign. Bankers took the lead in the matter from the beginning, many of them serving as managers or at least as stimulating agents on the local committees organized by the Administration to push the movement. Nevertheless the banks at first were slow to make loans. By the end of 1935, how-

ever, they had taken 68.2 per cent of the $254,070,729 loans insured up to that time. The record showed national banks with 42.3 per cent of the loans; state banks and trust companies, 25.9 per cent; finance companies, 24.4 per cent; industrial banks, 5.6 per cent; building and loan associations, 1 per cent; savings banks, 0.7 per cent; and other agencies, 0.1 per cent. The breakdown of the final figures, subject to possible small changes during April, shows national banks with 50.67 per cent of the business; state banks and trust companies with 26.34 per cent; finance companies with 15.58 per cent; industrial banks, 5.74 per cent; building and loan associations, 0.81 per cent; savings banks, 0.74 per cent; and other agencies, 0.12 per cent. At the end of 1935 commercial banks had 68.2 per cent of the business; at the end of the campaign they had 77.01 per cent.

BANKS STEPPED FORWARD

THE chief change in these proportions was in a swing from finance companies to banks. That change is notable. The term "finance companies" includes not only personal finance companies whose business consists almost entirely of making small loans on a character and income basis, but also companies organized by large material supply, heating plant, plumbing, contracting and household equipment concerns for the particular purpose of handling this business. Some of these latter companies were organized and functioning long before the Housing Act was passed and are a permanent feature of the business of the parent concerns. Apparently business done by the regular personal finance companies in the campaign has been comparatively small. In general the rates of interest charged by these concerns are too high to be brought within the scope of the Housing Act. Whichever variety of finance company is involved, however, the interesting point is that they have lost business, comparatively speaking, to the banks which have extended this form of credit.

It is probable that five years or so from now the commercial banks which have had a part in this home modernization and repair campaign will look back upon it less in the light of something which brought them temporarily considerable business at a time when they needed it than in the light of the beginning of a new bank policy and the establishment of personal loan depart-

ments in their institutions. It could hardly be expected, of course, that the experience of all banks in making these loans has been uniformly pleasant or that all banks have made a complete success of their part in it. For the participating banks as a whole, however, this business has been satisfactory from practically every standpoint.

At the end of 1935 the Housing Administration had paid $447,447 for insured losses, which amounted to 0.176 per cent of the insured loans covered. As of March 20, 1937, insurance claims paid —less collections, repossessed properties and net amount due on loans reinstated—amounted to $4,769,930, or 0.89 per cent of the insured loans. Even this latter rate does not represent net loss, since the Administration has succeeded in making substantial collections from the defaulting borrowers and the tendency has been for collections to improve with general business conditions.

THE QUESTION OF PERMANENCE

HOW far housing loan machinery will develop into permanent personal loan departments depends upon the banks. The significant fact about the business which has been built up under the aegis of the Government is that it has been secured largely upon the initiative of the banks themselves. The Government provided the machinery, it organized committees which were of great assistance in forwarding the movement, but the actual business depended upon the readiness of the banks to cooperate with the committees and with business men interested in the undertaking. Already many of the most conservative banks in the country have developed their housing loan set-ups into personal loan departments which are cooperating with local business concerns to finance purchases by amortized small loans.

Whether this policy on the part of banks is the reason for or the result of conditions, preliminary investigation by Government and other authorities indicates that instalment sales have hit a new high level, exceeding those of 1929 by a considerable margin. Financing purchases of automobiles still remains the chief item in this business, but it is far from being the only one. Nor is such business a small town or small bank proposition. When two of the country's largest banks, one on the Atlantic and the other on the Pacific Coast, can do a business in this line of around $25,-000,000 a year, each with negligible losses and at rates fair to both borrower and lender, it is evident that loans of this sort represent business for which there is real demand.

Changes in "Governments"

REDUCED holdings of United States Government securities were shown by many banks in their March 31 condition statements.

Commenting on the decrease locally, the New York *Herald-Tribune* recalled that the banks of the metropolis had begun to lighten their holdings of governments last July, "long before the market had reached its crest" and had remained among the principal sellers after the "long-awaited break" had arrived.

"New York banks," said the newspaper, "are still reaching for a profit in their governments where any such profit remains. The other principal motive for their sales of governments is the continuing improvement in the demand for commercial credit. . . . Nearly all hands expect that the demand for commercial credit will continue good, and so long as it keeps up the banks can be counted on to look for selling opportunities for their governments."

Of the first 20 New York City banks to make public their first quarter condition statements, 15 reported reductions in the Government bond account. In some cases the drop, as compared with December 31, was large. Of the banks which showed increases, three had made relatively small increases, while the other two added rather substantially to their portfolios.

A RECENT NET GAIN

THE condition statement of weekly reporting Federal Reserve member banks in 101 leading cities on March 31 revealed a decrease of $300,000,000 in holdings of direct obligations of the Federal Government. Institutions in the Chicago District accounted for $201,000,000 of this decline and New York district banks for $55,000,000. The following week, Chicago holdings jumped $145,000,000, although New York's were off $16,000,000. The net change for all reporting banks was a gain of $124,000,000 in the week ended April 7.

Figures released by the Comptroller of the Currency, as of December 31, last, showed that of the $70,114,791,000 in assets held by the country's 15,705 banks, a total of $17,421,197,000 was invested in securities of the United States. This compared with $17,358,-200,000 on June 30 of last year.

200 Bank Research Projects

By HAROLD STONIER

BEFORE qualifying for the diploma of the Graduate School of Banking, each student must prepare and submit to the faculty a satisfactory thesis on an approved topic that particularly interests him.

This means that every year, beginning this Summer when the School graduates its first class, some 200 pieces of research done by practical bank officers will be completed. Out of this extensive fact-finding, it would seem, will come much useful information.

In addition to the research incident to the theses, there are the projects to be conducted by the School's Trust Research Department, established in January 1937 by a grant from the Educational Foundation of the American Bankers Association. Under Gilbert T. Stephenson, as departmental Director, this division will undertake various research activities, publishing the results from time to time and making them available to banks, bankers' associations, universities, and other interested organizations or individuals. Thus the work of the Graduate School is not limited to broadening the knowledge of the men who happen to be taking its courses at any given time. Rather, the School is serving the entire profession.

Perhaps a bird's-eye view, so to speak, of the thesis work done by the first class will be of interest. The men have worked hard and well. They chose a wide variety of topics under the general headings of banking, investments and trust business, and the results have been substantial.

Here, then, are synopses of representative theses, selected to indicate the character of what has been accomplished.

* * *

THE INVESTMENT PROBLEMS OF A SMALL BANK.—In this thesis an attempt is made to show the difficulties which the small town bank and banker encounter in formulating an investment policy to fit the institution, and the further difficulties met in attempting to carry out a definite program—first, by reason of the frequent lack of adequate training of the investment officer, and, second, the dependence which must be placed upon outside sources for short range information and data.

A hypothetical balance sheet is set up from a consolidation of statements, criticisms advanced, and assets broken down and then set up in what the writer considers proper proportions. Various types of securities are discussed briefly to show their eligibility or ineligibility.

Emphasis is placed on the element of timing in investments, in that there are times unsuitable for the placement of funds in high grade investments, and times when the purchase of second grade or equity mediums is justified.

* * *

STATEMENT ANALYSIS.—Many changes have occurred in credit practices in recent years. As these changes have taken place, as trade territories have increased in size and scope, as business entities have become larger and more complicated, greater reliance has been put on financial statements in the safe extension of credit. The well equipped credit man of today must know how to interpret financial statements intelligently.

This paper outlines in detail many different methods which can be used to analyze intelligently the balance sheet and the profit and loss statement. Such interesting subjects as financial budgets, interim trial balances, and consolidated statements are discussed. The thesis presents in an understandable manner many helpful tools, some new and some old, which can be employed to advantage by the credit man interested in the safe extension of short term credit.

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BROKERS' LOANS AND THE STOCK MARKET: 1926–1936.—Here is a study that sets forth the nature and origin of these loans, and indicates the mechanism involved in the making and handling of credits to brokers and dealers in securities. The questions of safety and legality are discussed.

As brokers' loans arise from dealings with stock brokers, the relationship between the loans and the stock market is shown, supported by statistics covering the fluctuations in brokers' loans and stock market prices. Furthermore, fluctuations in money rates are studied in order to show the effect on money rates of the fluctuations in brokers' loans.

The advisability and effectiveness of regulation of the loans are explained. Thought is given to the effect of this control on the general banking situation.

* * *

THE BANKING SYSTEM OF ENGLAND COMPARED WITH THAT OF THE UNITED STATES.—This thesis covers the English system down to 1826 and the colonial system in this country down through the Second Bank of the United States. It contains a chapter on the joint stock banks and their history; an account of what happened in the United States from the Second Bank until the formation of the national banking system; a comparison of the branch banking system of England with the unit banking system of the United States and consideration as to our future in this respect; a description of the merchant bankers, their origin, history and present position; a description of the discount houses and the bill market of London, and the unique function it serves; a comparison of the Federal Reserve System with the Bank of England; and consideration of modern questions of credit control in each country.

* * *

INVESTMENTS FOR GUARDIANS.—The author of this thesis makes a comprehensive study of the laws of the various states with respect to the legal rights and responsibilities of trust companies in investing funds for guardians. An attempt is made to show by charts and descriptions that there should be more uniformity in the various jurisdictions regarding this important trust business function. Ancient, difficult and, in some cases, ridiculous regulations are noted.

* * *

PERSONAL LOAN DEPARTMENT.—Material presented on this timely subject includes: the historical background of personal lending; the beginnings of personal loan business; characteristics of personal loans; characteristics of borrowers from the personal loan department; Federal Housing Administration modernization loans; small loans under the Morris Plan system; organization of personal loan departments; legal considerations; and advantages and disadvantages of these departments.

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THE CREDIT AND INVESTMENT STANDING OF THE TEXAS CORPORATION.—The history of the company is traced from the beginning to the present. The corporation's present vast network of subsidiaries extends to every state and to all principal foreign countries, and it represents a completely integrated unit, from production to retail distribution. The quality of the company, from both the credit and investment standpoints, is brought out by the use of comparative statements, ratios and charts. The creditor or investor gets a complete picture of the company's property and assets and their relation to the other items of the balance sheet.

* * *

ADMINISTRATION OF A BANK'S LOCAL BRANCHES.—The thesis treats with the complete unit type of branch and the three factors necessary in any program of successful administration, namely: administration, which defines the goal; management, which endeavors to attain it; and organization, the instrument available to management in the accomplishment of the aims set by administration.

A complete unit branch must provide all the banking services required and in a way that meets the financial needs of the community; in addition, these facilities must be provided at a reasonable cost. The several factors entering into organization, such as operations, accounting, branch examinations, branch continuous audit, business development, and conversion of funds, are developed to show how they best fit the requirements of supplying adequate services economically and under proper control of management and administration. Under the latter title, the writer endeavors to show that scientific methods must replace old-fashioned banking; the importance of personnel analysis and development, both clerical and official; the need for professional management and its application to the supervision of branches.

* * *

A STUDY OF SERVICE CHARGES ON SMALL CHECKING ACCOUNTS.—Here is an examination of the so-called pay-as-you-go checking account plans. It is an attempt to point out their weaknesses; it further attempts to suggest a procedure whereby banks may attain, on a sound and profitable basis, the objectives which the plans were designed to accomplish.

* * *

A COMPARATIVE STUDY OF THE LAWS GOVERNING TRUST INVESTMENTS.—The thesis is divided into three main parts. First is the development of the trust idea from ancient times to the present. Second, the author makes a comparative study of the trust investment laws of the 48 states, District of Columbia, and Hawaii. The laws affecting trust investments are carefully tabulated and the widely varying rules set up by the various states are commented on. The section also covers such special situations as states having no trust investment law, states where the authorities are required to publish legal lists, and states permitting foreign investments, common stocks, etc. Third, the writer proposes a uniform trust investment act, setting up rules and regulations which in his opinion can be adopted by each state in order to bring about uniformity in this important field of legislation.

* * *

THE AMERICAN THEORY OF BANK RESERVES.—Here is a review of American banking, particularly with respect to the groping for a correct and sound theory of reserve protection. It traces the fallacies prevalent in such theories from the practice of specie reserves, through the more flexible reserve practices under the Federal Reserve System. The historical background and the functioning of different reserve theories are presented, together with corrective steps taken under the emergency of the 1933 banking crisis. The essential factor of convertibility of wealth into different forms to meet any diversity of preference is also discussed.

* * *

EXPANSION OF BRANCH BANKING IN THE UNITED STATES.—The subject matter deals first with the early history of branch banking, the struggle of branch banking to survive amidst the then existing poor transportation and communication facilities, the states' rights issues in banking, and the ultimate triumph of free banking in the National Bank Act. Then the foreign bank situation as related to branch banking is reviewed and compared with our banking problem over the corresponding period. Advantages of branch banking over group and chain banking are pointed out as well as arguments for and against branch banks over the small unit banks. The present trend in its relation to recent banking developments is discussed. There is also a discussion of the need for further banking concentration, and the effect of such a development on the Federal Reserve System and the country as a whole.

* * *

THE INVESTMENT PROBLEM OF A COUNTRY BANK.—This study endeavors to set forth the change in the character of the earning assets of all banks, with particular reference to that of the author's bank. The various types of investments available to country banks today are briefly summarized, different methods of handling banks' investment problems are discussed, some of the important factors bearing on market behavior are shown, the method used by the author's bank is explained briefly, and some solutions of the country bank's investment problem are offered. The thesis is developed primarily from the standpoint of institutional investment policy, and is not directed at specific situations or solutions for specific problems.

* * *

THE ESTABLISHMENT AND MAINTENANCE OF A COMMON TRUST FUND.—This discussion is intended to give practical advice, drawn from all available experience in this country, which would be of assistance to a trust institution which is considering the adoption of this method of trust investment. Suggestions for setting up the fund are offered, and special attention is paid to bookkeeping methods, to the records required for Federal taxes, and to Federal Reserve regulations.

* * *

"MONEY RATE" BONDS OF COUNTRY BANKS.—A study of bank failures and suspensions, as well as investigations into the waste of capital funds of banks, is used as a background for investment consideration. Emphasis is placed upon the security losses and depreciation sustained by various groups of banks during the depression. The discussion of these topics is followed by an examination of two divergent security investment policies, namely, the holding of a well-diversified portfolio of bonds which are influenced mainly by money rates, and investing in bonds which cannot be classed as "money rate" bonds. The writer states his views concerning this problem as it affects the investment of country bank funds.

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RESEARCH AND BANKING.—At the outset research is briefly defined and a short summary is made of what research has done for industry and how this, in turn, has directly

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affected banking. The growing recognition among bankers of the need of research in banking is commented on, and after a brief summary of the work that has been done in banking research, suggestions are offered for organized banking's next step in developing a research program. Some of the questions to be taken up by research are listed and some attention is given to the form of research work being done at present in Government circles. A discussion of the difficulties in the way of research for organized banking follows, and finally a suggestion is made for making research work in banking effective.

* * *

IDEAL BANK STATEMENTS.—Some of the frequently heard criticisms of published bank statements, together with the obstacles in the way of standardization and improvement, are discussed in the introduction to the thesis. These are followed by examples of the statements published in the '70s, the '90s, and in more recent years, illustrating the lack of any substantial progress in methods of presentation or type of information shown. The standardization work of the F.D.I.C. and others is outlined.

After discussing the various items which might be shown in a bank's statement of condition, and the most logical arrangement, a sample is offered incorporating such information in presentable form. Operating statements are treated similarly, and the various arguments for and against publication of operating statements are mentioned.

* * *

POLICY AND PROCEDURE IN THE SECURITY INVESTMENT ACCOUNT OF A COMMERCIAL BANK.—This study points out the essential nature of the security investment account, which term includes both the secondary reserve account and the bond investment account. The relationship which these items bear to the capital account and to the amount and type of other assets is considered at length. On the basis of the experiences through which we passed in 1929, a specific framework is set up to guide the investment policy.

A discussion of the regulation of the Comptroller of the Currency affecting the investments of national banks and state member banks of the Federal Reserve System is explored, and an alternative to that regulation is presented in detail. Matters of internal procedure, such as the method of buying bonds, type of bonds to buy, allocation of costs, etc., are carefully considered. External factors, including Federal Reserve policy and general political and economic conditions, are discussed in the light of our present era of more management of money.

* * *

A MANAGEMENT POLICY FOR EQUITIES IN AN INVESTMENT FUND.—This is a case history of a hypothetical fund established January 1, 1925. The fund includes some common stocks as a measure towards preservation of wealth and the stabilization of buying power of income. By a policy of maintaining a predetermined ratio of stocks through (1) reduction of stock holdings as their market value to total account value increased and reinvesting the increment in prime bonds, and (2) through purchase of additional stocks in the event value of stocks held was less than the predetermined ratio and general business indexes were showing an upward trend, it would be possible to adjust, to a degree, the fund's buying power to actual costs of living. Dividends and stock market prices have varied inversely with the purchasing power of the dollar.

BANKING

JOURNAL OF THE AMERICAN BANKERS ASSOCIATION

MAY 1937

Bank Service in Bankless Towns

THE elimination of approximately 10,000 units from the banking system of the United States in the past 10 years has resulted in several thousand communities being deprived of facilities to which they had become accustomed. There is, accordingly, a problem in bank service for towns which are considered, or consider themselves, bankless communities. How serious this problem really may be regarded is largely a matter of opinion.

A telegraphic survey of the situation conducted by BANKING within the past month indicates that both state and Federal supervisory authorities are not urgently concerned, believing, in most cases, that in the course of a reasonable time the problem will solve itself. A few states have moved in the matter so far as to establish more or less temporary substitutes for banks, and authority for branch banking has been extended considerably in the several states. Popular sentiment is active in some localities and more or less political pressure in favor of the establishment of more banks has been brought to bear upon chartering authorities.

Obviously there really is a problem of some degree in the banking situation of many communities which is forcing itself upon the attention of both bankers and supervisory authorities.

The first question which this problem presents is that of the standard of population or volume of business which should determine where and when a bank is needed. The second question is how to meet the banking needs of a community which cannot support a bank of its own. Obviously, population in itself is not a final determining factor. A small community may be the center of a rich territory surrounding it which can easily support a satisfactory bank. On the other hand, a larger community may be so poor in wealth and resources as to make adequate support of a bank difficult if not impossible. A more practical criterion is the geographical or business relations of a bankless community to other towns in which banking facilities are available.

The significant feature of these figures is that the larger number of bankless towns are in the more thickly populated states—states in which the means of communication generally may be considered the most advanced. A natural inference seems to be that while these communities may be bankless they are so situated that banking facilities are easily within reach. Banking superintendents in several of these states estimate that the average distance between these bankless towns and towns with ample banking facilities is from five and six miles, or no more than most farmers are accustomed to travel for bank services. Except, perhaps, in Missouri, all state supervisory authorities, in reporting upon the situation within their jurisdiction, do not consider the bank shortage serious, indicating that even in communities now without banking facilities the need of service is often more imaginary than real. Several of them are of the opinion that their states are still over-banked.

Branch banking is frequently offered as a panacea for the whole situation, but branch banking is prohibited in nine states, some of which are among those which seem most to need facilities for some of their communities. These states are Colorado, Florida, Illinois, Kansas, Minnesota, Missouri, Nebraska, Texas and West Virginia. Kentucky, New Hampshire, North Dakota, Oklahoma and Wyoming have no laws on the subject. Seventeen states, including Alabama, Arkansas, Delaware, Georgia, Indiana, Iowa, Louisiana, Massachusetts, Mississippi, Montana, New Jersey, New Mexico, New York, Ohio, Pennsylvania, Tennessee and Wisconsin permit branch banking within limited areas. The remaining states permit state-wide branch banking, although, in some cases, under certain limitations. In general, national banks are allowed to establish branches in accordance with the privilege allowed state banks within each respective state.

THE PROBLEM WOULD STILL REMAIN

EVEN if all states eventually permit branch banking within reasonable limits, however, there would still remain the problem of bank facilities for communities not large enough or strong enough to support even a branch bank such as the banking laws now contemplate. To care for these communities, at least pending a more permanent solution of the problem, there has developed a movement in several parts of the country for the establishment of quasi-banking offices usually known as "teller's windows" or "cash depositories", sometimes also known as the "Iowa Plan" or the "South Carolina Plan." How far these temporary establishments can be made to meet the situation pending a gradual adjustment of banking facilities to banking needs seems doubtful. In South Carolina the state bank board of control, which has authority to grant or refuse charters to banks, has authorized the organization of "cash depositories" as well as "teller's win-

dow" branches. The cash depositories receive deposits and honor checks but can make no loans of depositors' money except with the direct consent of the depositor, in which case the depositor takes over the loan. They are "cold storage" places for cash. They derive their support from service charges, usually a flat charge per month, and from the income of the investment of their deposits in obligations of the United States or the state of South Carolina, to which they are limited.

The "Iowa idea" presents the "teller's window" system. The state's laws prohibit branch banking but the legislature has authorized banks to establish offices in their home or contiguous counties for the receipt of deposits and the cashing of checks. Such an office cannot be operated in a community

COMMUNITIES OF 1,000 POPULATION OR OVER WITHOUT BANKING OFFICES, BY NUMBER AND BY STATES

State	*Population 1,000 to 2,500*	*Population 2,500 to 5,000*	*Population Over 5,000*	*Total*
Alabama	60	7	2	69
Arizona	9	0	0	9
Arkansas	12	1	2	15
California	41	6	3	50
Colorado	15	2	0	17
Connecticut	34	14	3	51
Delaware	3	1	0	4
Florida	20	3	0	23
Georgia	19	3	1	23
Idaho	11	0	0	11
Illinois	83	17	19	119
Indiana	15	1	3	19
Iowa	2	0	0	2
Kansas	5	0	0	5
Kentucky	29	3	3	35
Louisiana	22	3	0	25
Maine	91	7	0	98
Maryland	29	2	1	32
Massachusetts	103	24	10	137
Michigan	30	13	7	50
Minnesota	11	3	1	15
Mississippi	8	2	0	10
Missouri	23	2	1	26
Montana	5	1	0	6
Nebraska	2	0	0	2
Nevada	2	0	0	2
New Hampshire	17	1	0	18
New Jersey	83	17	4	104
New Mexico	17	1	0	18
New York	89	17	4	110
North Carolina	36	7	0	43
North Dakota	0	0	0	0
Ohio	52	12	8	72
Oklahoma	67	10	2	79
Oregon	7	0	0	7
Pennsylvania	217	50	26	293
Rhode Island	24	9	7	40
South Carolina	33	7	1	41
South Dakota	2	0	0	2
Tennessee	14	0	0	14
Texas	35	3	0	38
Utah	16	2	0	18
Vermont	10	2	0	12
Virginia	29	12	4	45
Washington	32	3	1	36
West Virginia	56	6	3	65
Wisconsin	18	1	2	21
Wyoming	6	0	0	6
Totals	1,544	275	118	1,937

Data from F.D.I.C.

In June BANKING will appear an article by E. A. Wayne, Chief Bank Examiner of South Carolina, describing what that state is doing about bankless communities

after the establishment of a bank. Iowa early took the lead in the movement to care for bankless towns and the Iowa law is taken as the model upon which the legislation of several states has been based. Arkansas, New Mexico and Wisconsin have laws similar to that of Iowa. The teller's window system also has been operated with rather conspicuous success in North Carolina. North Dakota's legislature passed an act this winter, effective July 1, adopting the Iowa Plan. Kentucky courts have held that banks in that state can establish offices to receive deposits and cash checks. In Colorado associations have been formed by merchants in several communities for the cashing of checks. The legislature in Montana considered the matter of permitting teller's windows at this winter's session, but it took no action. In Missouri the legislature considered a bill two years ago which provided for the establishment of cash depositories. It failed of passage. Another bill providing for teller's windows on the Iowa Plan also failed of passage. Since that time the Missouri Bankers Association has been considering the problem and is said to be about ready to report. Bankless towns in the state are reported as numbering approximately 350.

ONE REASON STATE OFFICIALS HESITATE

IN several states, notably Wyoming and Oklahoma, the matter of establishing teller's windows has been considered, but the state authorities decided to take no action, in view of a ruling of the Comptroller of the Currency that the authorization of such offices for state banks would extend the same privilege to national banks—thus, in the opinion of the state authorities, opening the way for branch banking by national banks. In Washington there is a law which declares teller's windows in effect branch banks and, while Washington permits branch banking, banks as a rule are not willing to commit themselves to the establishment of branches by the teller's window route. Kansas officers also have considered the matter in the same light as Wyoming and Oklahoma and have come to the same conclusion. In New York an Act passed in 1934 divided the state into nine districts, in each of which branch banking is permitted; the state superintendent of banking has recommended consideration of further legislation which will permit the operation of branches or stations to be opened for two or three days a week in communities not large enough to support a full time branch.

It appears from BANKING's survey that, by and large, the problem of temporary substitutes for banks in communities which need or think they need banking facilities is moving toward a solution and the trend is in the direction of some form of limited branch agency. This seems to be growing in favor with state as well as with some of the Federal authorities. States which have recently passed restricted branch laws seem to be satisfied that these will solve their difficulties. There also seems to be some growing favor for a modified form of a system such as prevails in Britain but rather strictly limited as to territory, as suggested by the New York superintendent.

BANKING's survey clearly demonstrates, however, that state authorities favor some form of branches only so far as the step may apply to communities which cannot support a unit bank.

What Arkansas is Doing

By W. A. McDONNELL

THE problem of the bankless town must be met. This fact was forcibly brought home to the bankers of Arkansas during the session of the Arkansas legislature which has just ended.

The way in which the problem was presented in this state was unique. In 1921 a measure was passed by the state legislature designed primarily to assist farmers in financing and marketing their crops. It provided that 20 or more persons, with a paid-in capital as low as $300, "may associate themselves together as a cooperative corporation for the purpose of conducting any agricultural, dairy, mercantile, banking, mining, manufacturing, or mechanical business on the cooperative plan." How the word "banking" ever got into this measure no one seems to know. When it was discussed before a legislative committee in which bankers were represented, this word was not included. After it received a favorable report of the committee, the word in some way was slipped into the measure before it was adopted by the legislature.

At the time the measure was adopted bankers paid little attention to it because it was not conceived that the statute, even with the word "banking" included, could be used by any group to obtain banking powers except in the usual manner through the banking department of the state. Even when a so-called "cooperative bank" obtained a charter and opened for business shortly afterward in a small town there was no particular apprehension among bankers. Between 1921 and 1930 one or two other charters were obtained for "cooperative banks" in small towns where regular banks had failed, but little attention was given to the situation because it was considered that banking activities would be confined to the members of the cooperative associations. Commencing in 1929, all of the agricultural credit corporations doing business in this state were organized under the provisions of this statute.

INROADS BEGIN QUIETLY

SEVERAL other so-called "cooperative banks" were organized under the statute in 1930, when a severe drouth caused numerous bank failures especially in the small towns serving agricultural communities. It was about this time that bankers began to notice that these "cooperative banks" were accepting deposits, paying checks and making collections, not only for their own members but also for the public at large. After the banking crisis of 1933, many more sprang into existence. During that year, at the request of the state bank commissioner and the Arkansas Bankers Association, the legislature passed an act authorizing banks to establish tellers' windows, or what are otherwise called paying and receiving stations, in bankless towns in the county in which the bank was located and counties contiguous thereto. It was thought that this would stop the spread of the "cooperative banks". Bankers, however, were reluctant to establish these tellers' windows, for the reason that they had not devised a profitable system of operating them. Consequently, the "cooperative bank" movement continued, and by 1936 there were about 30 in existence, with numerous applications pending before the secretary of state for the granting of additional charters.

A number of these associations were organized in towns already having adequate banking facilities. Many of them were making loans and very few had a paid-in capital which amounted to more than their investment in furniture and fixtures. In some instances the deposits ran as high as $75,000 to $100,000. Most of them held themselves out as banks and were so regarded by the public.

By January 1937, when the legislature again met, the bank commissioner and the bankers of the state were genuinely alarmed. It was apparent that, if the movement was not checked, there might soon be one of these hybrid banks in every small town or community in the state. In the early days of the session, the Bankers Association, through its legislative committee, introduced an act which would have repealed the 1921 act and would have required the liquidation of all "cooperative banks" in twelve months. This proposal met with such immediate and powerful resistance that it was withdrawn, since its defeat was imminent. A substitute measure was introduced which provided: (1) that no new "cooperative banks" could be chartered; (2) that the words "bank", "banking", "banker" or "trust" must be removed from the corporate name of all such organizations within 90 days; (3) that those located in towns having a regularly organized bank or a tellers' window branch thereof must be liquidated within 18 months; and (4) that those situated in towns having no other banking facilities could remain in existence but would be classed as investment companies and would be placed under the supervision of the securities division of the state banking department, subject to such rules and regulations as that department might promulgate.

The act contains the further important provision that whenever a regular state or national bank or tellers' window branch thereof is organized and opened for business in a town where a "cooperative bank" is located, such "cooperative bank" must liquidate within 18 months.

THE BILL BARELY PASSED

DESPITE the fact that the full weight of influence of the banking department and the Arkansas Bankers Association was thrown behind this measure, and although the governor of the state sent a personally written message to the legislature urging its passage, it was passed only by the most narrow of margins in each branch of the legislature.

The problem of bankless towns cannot be dodged by the banking fraternity. If it is not solved by commercial banks acting voluntarily, it might be solved by Congress or by the various state legislatures in a manner not to our liking. This is just another one of those situations where bankers, as a matter of self-protection, must take the lead in finding a satisfactory solution, rather than wait for some legislative body to impose an unsatisfactory one. Here in Arkansas, as a result of our recent legislative experience, we are convinced that if we are to prevent a lowering of capital requirements to the former dangerously low levels, we must in some manner provide banking facilities to bankless towns. In our opinion the proper solution is through an extension of tellers' windows, or what in some states are known as paying and receiving stations.

A New Epoch in Power Farming

By D. M. FLEWELLIN

IN line with their policy of making a high percentage of their loans locally, more and more rural bankers are taking interest in farm implement paper. Within recent years, the sale of tractors and other equipment has been steadily advancing, due, no doubt, to increasing crop prices and to the interest among farmers in doing everything possible to increase the productivity of their acreage. During the recent depression cycle, the need-list of farmers for new equipment has been mounting; for years now, farmers, generally, have been getting along with antiquated tools; many have put off until better days the replacement of such equipment. Now, in many sections, the better days are here; the dams of pent-up needs are breaking down, and farmers are buying at an increasing rate.

Catering to this market, manufacturers of agricultural equipment offer models far in advance of old-time equipment. In tractors, for example, the farmer is being offered a choice of types for virtually every kind of farm or task, and, today, even the smaller agriculturists frequently can buy tractors that are small and inexpensive enough to make the use of mechanized equipment both practical and profitable. In a word, the equipment manufacturers seem to be bringing power farming within the reach of a large percentage of America's farmers.

One of the significant developments of recent years has been the all-purpose tractor, made to sell at nominal prices, and designed to plow, cultivate and, in fact, perform virtually every power task on the row crop farm; there are conventional type tractors for diversified farming, and there are models especially adapted for use in orchards and vineyards. Gas and low-cost distillates are the fuels generally used; diesel-powered tractors are making their mark, particularly on large-size acreages, notably in the West. In the tractor of today, power has been increased, and speeds generally stepped-up; "quick hitch-up" of equipment is stressed, and power lifts are often available to facilitate the regulation of certain types of plows, middlebusters, cultivators, drills and planters, etc.

In the area served by our bank, corn is the big crop, and extremely popular with our farmers are tractors capable of hauling 2- and 3-bottom plows. Corn pickers seem to be especially popular equipment items here.

PRESENT IMPLEMENT BUYING IS SOUND

ALTHOUGH the demand for agricultural implements seems to be definitely on the upgrade, the farmers, as a whole, are not overbuying; they have been thoroughly schooled by the past depression in careful buying, and while they no longer are counting pennies, they are spending their money only for things they actually need. It is the desire to increase future income that is governing the implement purchases of the average farmer, and he can quite generally be said, probably, to be committing himself for such purchases only after arriving at a pretty definite idea as to how he is going to meet his obligations.

To the rural banker seeking to uphold a high earning level in his investments, the inclusion in his portfolio of good, conservative implement paper is becoming an increasingly popular practice; farm implement paper yields upwards to 6 per cent, which looks mighty good compared, for example, to the 2 per cent or 3 per cent earned by many bonds. In addition to keeping his investment-earnings on a high plane, the country banker who takes good, sound implement paper and who works with his local dealers, keeps loans on a local basis, and directly increases his future earning possibilities by helping farmers in his community acquire the means of increasing their prosperity. While many of the companies manufacturing implements are set up, generally, to carry dealers' paper, these companies as well as their dealers favor the local handling of financing. The practice seems to be growing, in some sections, of bankers attending company meetings, together with the dealer, and in some instances, parties of dealers, farmer-prospects and bankers have visited factories to witness manufacturing operations.

LOCAL BANKERS KNOW BEST

NO one questions that the set-ups of bankers serving rural communities are most ideally framed to handle the average type of local loan. In establishing credits, this type of banker frequently can go farther than outside financial organizations, since he knows, first hand, the safe borrowing capacity of his neighbors, or has means available to check quickly and accurately on credit. He operates flexibly, frequently fitting loans to individual clients, setting up dates for payments which best suit the convenience of the borrower. To one farmer, for example, he may today lend a sum of money sufficient to buy a number of "feeder" cattle, taking a mortgage on the cattle, then waiting until they are fattened and sold before deducting his principal and interest; or, he may help a local merchant put in a stock of electric refrigerators, taking as his security a mortgage on the incoming stock, lending 90 per cent or so of the cost price, possibly setting up a payment-program covering each individual refrigerator as it is sold. Almost every day the rural banker is called upon to render some different type of service, and, as one who caters to every individual loan-need of every community group, the rural banker becomes a close friend to most of his neighbors. As a member of the community, and as one interested in its financial progress, his advice frequently is sought by farmers and merchants who are contemplating the purchase of equipment and commodities. Although not consciously a salesman, he often is an important factor in bringing buyer and seller together, because of his ability and willingness to make conservative loans on a "personal relationship" basis.

Desiring to diversify his investments, and realizing that the farm implement business is so important to the rural picture, the far-sighted country banker is finding it well worth while to work with local dealers in developing programs profitable to all concerned.

Remember

By SIR JOHN AIRD

WHEN I entered The Canadian Bank of Commerce in 1878 as a stenographer, after eight years' service as a railway telegrapher, Canada was not far advanced in the development of the national banking system she now possesses. True, there were some Canadian banks of quite lengthy experience, including one established about 60 years previously, but they were sectional institutions, some of which suffered greatly from the vicissitudes of the warfare, polyglot currencies and recurring economic recessions which marked the latter 18th century and the early 19th.

Shortly before I joined the staff of The Canadian Bank of Commerce the institution had opened an agency in New York, and I remember how deeply impressed I was in learning that, through that medium and other New York offices of Canadian banks, passed a large part of the financial instruments arising from American exports and imports.

The banking service for American foreign trade afforded by The Canadian Bank of Commerce through its New York agency was extended when it opened branches in Chicago in 1875, and in 1896 in New Orleans, then, as now, an important source of cotton bills of exchange. On the Pacific Coast a Canadian bank, The Bank of British Columbia (amalgamated with The Canadian Bank of Commerce in 1902) had long been prominently identified with the foreign trade of San Francisco, where it opened a branch in 1863. That bank took a leading part also in the establishment of the Hawaiian sugar industry.

THE BANK THAT WAS PANNED FOR GOLD

THE Portland, Oregon, branch of The Bank of British Columbia, opened in 1872, and its Seattle office, established in 1895 and now forming part of The Canadian Bank of Commerce, acted as bankers for many of the leading lumber and fishing concerns of the North Pacific Coast, as well as for a host of people who rushed into and out of the gold fields of Alaska and the Klondyke. Skagway, Alaska, was the gateway for the entrance of The Canadian Bank of Commerce to the Klondyke.

The Skagway branch, opened in 1898, was the scene of one of the most exciting of the numerous adventures of the Bank's staff selected for duty in the Klondyke. One day a stranger entered the office, and producing a stick of dynamite asked the officer in charge if he knew what it was. Upon the reply, "Yes, dynamite", the visitor then demanded $20,000 instantly, threatening, otherwise, to blow up the bank and enforcing his demand by whipping out a revolver and levelling it at the officer. The man fired, and while the shots went wide of their mark, almost simultaneously a terrific explosion occurred, the firing of the revolver having exploded the stick of dynamite which the man held in his hand, as well as some others in his pockets.

The office was a total wreck, but fortunately the perpetrator of the outrage was the only person seriously injured. He was picked up in a dying condition about ten feet from the spot where the dynamite had exploded. Although a considerable number of vouchers in the teller's cage were blown into small pieces and his cash was scattered all over the roadway and the floor of the office, by careful work most of the fragments of the vouchers and paper currency were pieced together, the gold coins were carefully gathered up and the gold dust, of which a considerable quantity happened to be lying on the teller's counter, was saved by a unique experiment. All the debris, which had been carefully guarded by United States soldiers, was collected, and the splinters, broken plaster and other fragments were put through a miniature sluice-box similar to that used in an ordinary placer mine. The result was that a quarter of an ounce more gold dust was recovered from the ruins than was supposed to have been on hand before the explosion.

My first experience in the West was in 1883, when I was sent to investigate and manage a farm near the present Indian Head, Saskatchewan. The farm I was ordered to supervise comprised 60,000 acres, the biggest farm in the world at that time. The Bank had become involved in the farm's debts, but I was able to look after the Bank's interests in it, and, when it was sold years after, not only did the Bank recover its loan but the owners were able to sell it for about $2,000,000.

This was not the only stewardship I had to perform in the West, for I was later sent to manage in a similar way a farm across the Manitoba border in Minnesota, which later became the town-site of Hallock. I recall vividly the nights I spent in a pioneer Minnesota farmhouse on that property under the rafters on a mattress of cornhusks, with my rest made fitful by an agitation which I found was caused by squirrels which had pre-empted my bed.

It fell to my task not only to open a chain of branches over the Canadian prairies, but also to make good connections with the many American business men and bankers, centred in Minneapolis and St. Paul, who had become interested in our western grain belt, and I count that experience as among the most pleasant and fruitful of my banking life. I once had the privilege of providing the late "Jim" Hill with a large sum of the Bank's money, in return for his check, with which to meet his Great Northern Railway payroll.

AN EXAMPLE FOR INTERNATIONAL FINANCE

THE foregoing portrays only a few of the incidents in the lengthy and generally satisfactory development of two banking systems, each of which became characteristic of its country's national economy, but which continued as contemporaries. Indeed, so closely have they been connected that they have greatly facilitated North American trade and finance, now expressed in a yearly volume of exports and imports of nearly $800,000,000, a total Canadian investment in American securities, equities and properties of over $1,000,000,000 and similar American investments in Canada of approximately $4,000,000,000, which I am gratified in regarding as among the safest foreign financial transactions ever undertaken.

Budget the Bond Account

THE management of a bond account is a relatively new problem in smaller banks, since it is only a comparatively short time since the practice of having assets invested in this form of security became at all general. About two decades ago, however, suggestions were constantly being made from many sources that the smaller banks should establish "secondary reserves" by investing in bonds. A large part of the unsatisfactory condition of bond accounts generally can be attributed to a lack of clear definition of this term "secondary reserve". In the final analysis a secondary reserve is a form of asset investment which can be turned into cash easily and quickly without capital loss. Analysis of a great many bond accounts discloses the fact that bond accounts *can* qualify under this definition but that few of them have done so.

The way that a banker can maintain a bond account which is truly a secondary reserve is to establish definite rules for the conduct of that account—in other words establish A BUDGET. Obviously, there will be some factors which will vary with individual institutions. There are, however, certain general principles which can be established and definitely adhered to in the proper administration of a bond account.

The first of these is that the banker should consider his bonds as credits and apply to each of them the same original analysis and constant attention that he applies to the individual loans making up the note case. In this connection, it must be remembered that bonds should be bought. Too many bonds in the portfolios of smaller banks have been sold to them. This is not possible where a banker, in buying a bond, analyzes the credit of the loan he is making in the same way he considers the note of a local merchant or a feeder loan to a neighboring farmer.

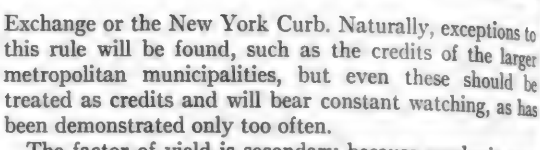
AFTER THE BUDGET COME GENERAL RULES

FOLLOWING the plan of establishing a definite budget for the bond account, the next question is: What rules should be followed in buying bonds? Broadly these rules can be divided into two groups—first, those which apply mainly to the individual issue and, second, those which apply to the account as a whole.

In the first group are the factors of security, marketability and yield. The first two of these are the ones which should be given preponderance of consideration by a bank in selecting its bonds. By security is meant the safety of the investment. Analysis of this factor is mainly based upon the earnings' margin over and above all charges, the expectancy for continuation of these earnings, lien position or the bondholders' claim upon assets, type of industry, management of the individual company, etc. In other words, the same analysis in practically the same terms as is applied to any other type of loan.

By marketability is meant the ease of conversion into cash or the salability of a bond. This characteristic is usually found in those bonds which are a part of a large and widely known issue, well distributed, representing the credit of a well known corporation and listed on the New York Stock Exchange or the New York Curb. Naturally, exceptions to this rule will be found, such as the credits of the larger metropolitan municipalities, but even these should be treated as credits and will bear constant watching, as has been demonstrated only too often.

The factor of yield is secondary because emphasis upon this point inevitably leads to a sacrifice of the two paramount considerations. Generally speaking, a high rate of return can be purchased only at the expense of either security or marketability or both. This is illustrated in the charts shown below.



S—SECURITY, M—MARKETABILITY, Y—YIELD

Consider *A* as representing a bond which is average in each of these three characteristics and *B*, *C*, *D* and *E* as the common variations. Too many bank investments have been made in bonds illustrated by *D*, where a high yield has been obtained through loss of security or marketability or both. Bond *E* is the one which typifies the ideal bank investment, since it represents proper emphasis upon the two most important factors.

During the market depression period of 1931 a study was made of the bond accounts of 80 banks. Of these banks, only 4 had an appreciation in their account as a whole, and the remaining 76 showed a depreciation averaging over 17 per cent. Disregarding the appreciation or depreciation, there was a spread of less than ¼ of 1 per cent in the effective rate of interest received. In other words, the 76 who sought yield at the expense of security did not find it because of the defaults included in their portfolios, while the 4 who let yield take care of itself found they had profited in both factors. Furthermore, when the appreciation and depreciation were taken into effect, the 4 who bought for security had a considerably greater income over a five-year period.

Admitting the fact that "rating" alone cannot be accepted as the full basis for judgment, it is, nevertheless, true generally that the higher the rating given a bond by recognized services the more nearly it fulfills the ideal requirements. However, the difficulty lies in determining the basis upon which such ratings are made. In its issue of October 1932 this magazine printed a summary of the methods used by leading rating bureaus in arriving at their conclusions. It was interesting to note the wide differences in methods—one bureau laying greatest stress on one angle and another service stressing another angle. No two placed the same emphasis upon the same factor. In order to get a rating picture based upon as many established principles as possible, the ratings of all the bureaus of reputation may be taken, and, by averaging these, one may arrive at a composite rating.

By E. S. WOOLLEY

In the second group of general principles, namely, those which apply to the account as a whole, the factor of classification is perhaps of major importance. Much has been written about the ideal classification of a bond account and probably much more will be written. No iron-clad rule can be made as to the composition of the bond account of any one bank, much less a rule that will apply strictly in all banks. The deposit structure of banks varies too greatly.

In the final analysis the deposit structure of the bank is the deciding factor as to how much shall be maintained in secondary reserves, just as it is regarding the amount required in primary reserves.

Naturally a bank which has a large amount of public funds on deposit, or other large accounts which are subject to heavy seasonal withdrawals, requires more in both primary and secondary reserves than one in which such conditions do not exist. Also, there must be considered the ratio of demand and time deposits and their rates of turnover. A high ratio of demand or a fast turnover of deposits requires a greater degree of liquidity than a high ratio of time and a slow turnover. In addition it must be recognized that it is necessary to consider conditions as they present practical problems in connection with the recovery of depleted values in the accounts of individual banks.

It is for such reasons as these that any discussion of banking practices which is prepared for general use must confine itself to the general principles involved and leave to each individual bank the problem of adapting those general principles to its own particular requirements.

However, a theoretical general classification somewhat along the above lines has been suggested by many authorities and represents an objective toward which constructive effort can be made. Such a composite general classification is as follows:

U. S. Government securities	30 per cent
State and municipal bonds	15 per cent
Public utility bonds	20 per cent
Railroad bonds	20 per cent
Industrial bonds	10 per cent
Foreign bonds	5 per cent

Of course, the big danger in any preconceived program of this sort is the tendency to adhere to it so strictly that good business judgment is not exercised. For example, a higher proportion than 30 per cent might logically be invested in Government securities at the present time.

There are authorities who believe that Government securities should be 50 per cent of the bond account at all times. This, however, is making a hard and fast rule which would not be applicable in many instances. The amount of Government securities necessary would also be contingent on whether or not the bank had any call money, acceptances or commercial paper among its investments. Such investments can also be counted among the secondary reserves.

The undue liquidation of high grade public utility bonds might make investment values in this field more attractive on a basis of dollar cost than would be true of the same grade railroad bonds. At another time the opposite might hold.

In the industrial classification consideration must be given to the trend in the particular industry as a whole. In other words, it is not prudent to buy a statistically well secured issue if the industry is on the down-grade and the future of that industry is unpromising or uncertain. Sooner or later, conditions within the industry might become so bad as to affect even the strongest unit.

At the present time the investment by banks, at least the medium sized or smaller banks, in many foreign bonds is open to serious question because of the unsettled state of world affairs in general.

Application of a classification program must, therefore, permit of a certain degree of elasticity if it is to be of real value in budgeting the bond account. It will be noted that real estate bonds are excluded from the above classification because they lack the necessary liquidity and also because of the fact that this type of security will probably be found among the local loans.

Another important requirement is account diversification. This should be treated from two angles, the first of which is the unit of investment. As a matter of general principle, the investment in each security should be of about the same amount. That amount should be held to a maximum of 4 per cent and in the smaller banks to about 2 per cent. Another point in diversification is geographic distribution. The credits should be spread rather evenly so that a regional depression or disaster would not be of too serious consequence in adversely affecting the investment value of the account as a whole.

As a matter of fact, in times past a good many banks made the mistake of placing a large proportion of their bond investment in more or less local concerns without apparent realization that they were in reality extending their note cases. This holds somewhat true with the bonds of local communities.

THE IDEAL MATURITY SCHEDULE

OF real importance in the proper budgeting of a bond account is the question of maturities. When it is borne in mind that the prime requisite of a bond account is its immediate liquidity, this importance is evident because, as a rule, the nearer the maturity of a bond the less does its price fluctuate in the market. The ideal bond portfolio would be made up of securities maturing in equal instalments over a five and ten year period. This, of course, is theory and could hardly be expected to apply in actual practice.

With this theory as a goal however, the advisability of building up a high proportion of short maturities as a revolving fund within the bond account will be obvious. Not only does this avoid extreme price fluctuations, but it also brings cash sums automatically into the bank at periodic intervals. Should these funds be needed for local purposes they become available, or, if not, the reinvestment will be possible at regular intervals and the bank can therefore average its earning rate from this source.

Bonds within a few years of their maturities can be procured, because an individual buys bonds on an entirely different basis from a bank. Quite frequently bond distributing organizations induce their individual customers to exchange bonds nearing maturity for longer term securities, thereby releasing the shorter term credits. After an analysis of the general purpose underlying the management of a bond account, it seems only logical that one of the first steps to be made is the formulation of a maturity calendar and an attempt to construct the account along that line.

The Armament Fillip to Inflation

By NORMAN CRUMP

WHEN the British Government announced that it proposed to spend £1,500,000,000 on defense during the next five years, £400,000,000 of which was to be borrowed, these figures were naturally regarded as stupendous both at home and abroad. In actual fact, they are not so great as they sound, and very likely they were expressed in this way so as to have the utmost possible propaganda effect on the Continent. In fact I have heard that one European government has only permitted its Press to publish the smaller figure of £400,000,000.

A moment's thought shows that the program works out at £300,000,000 per annum, of which £80,000,000 a year is to be borrowed. Now as matters stand, during the year ended March 31, 1937, we are spending £186,000,000, so that we are only proposing to spend another £114,000,000 per annum, of which £80,000,000 will be borrowed and only £34,000,000 raised out of fresh taxation. We have since had the detailed defense estimates for the financial year running to March 31, 1938. They show an increase of £90,000,000 over the past year's final estimates, and one of £92,000,000 over the past year's actual expenditure, but £80,000,000 of these increases will be borrowed. Thus the extra revenue required for defense alone is, according to these estimates, to be only £10 or £12 millions.

In actual fact a considerably greater increase in revenue will be required. While this year's budget has approximately balanced, it has done so only because our actual expenditure fell short of the final estimates. We have no right to count on a similar short-fall next year. Again, while the main estimates for 1937–38 are now known, there will probably be supplementary estimates to be announced later in the year. All said and done, it may turn out that actual expenditure will be £50 millions greater next year than this, exclusive of the £80,000,000 of defense loans.

HIGHER INCOME TAXES INEVITABLE

SO far as the budget is concerned, there should be no difficulty in raising this extra £50 millions. The trade revival is making existing taxes more productive every year, and this buoyancy of the revenue, as we call it, should bring in an extra £20 or £30 millions next year without any increase in taxation at all. To bridge the rest of the gap an increase in income tax from 4s. 9d. to 5s. in the pound is inevitable, and indeed has already been discounted by business sentiment. This, with some small additions to certain revenue customs or excise duties, should, in my opinion, suffice to raise all the new revenue required.

I come now to the economic aspects of the defense loans and of the rearmament program itself. It has already been argued that both can be achieved only at the cost of credit inflation, and this is the main question I wish to examine.

First, five years is quite a long time in which to detect incipient inflation and adopt remedial measures. There is no need to get in a panic at once, even if rearmament should begin to cause inflation. This is a point which opponents of our government have either overlooked or deliberately ignored.

In scrutinizing the economic effects of the rearmament program, there are five useful tests to apply.

(1) Are the new savings of the nation sufficient to cover not only the new defense borrowing but also all the normal and legitimate demands for capital, both public and private? J. M. Keynes has recently stated that they are, and, personally, I agree with him. If not, there will either be a steady rise in the price of new capital, i.e., in the long term rate of interest, or else an expansion in the banks' holdings of "governments" sufficient to require an artificial expansion of their cash if they are to maintain their traditional minimum reserve ratio of 10 per cent of cash to deposits.

(2) Is there to be a sufficient supply of skilled labor and materials to meet both the new needs of rearmament construction and also existing demands, which come mainly from the capital goods industries? This probably is the most immediate danger point, for there are already shortages of both labor and materials in many directions, which are creating numerous bottle-necks. It may be that the government will have to permit and even engineer some increase in the long term rate of interest in order to discourage new private enterprises which may compete with rearmament construction. Alternatively, public works of a civilian character may have to be postponed until the defense program is nearly complete.

(3) This introduces the next test, namely whether there turns out to be a sharp general rise in prices, wages, the cost of living, and working costs generally. Such an increase has already begun. Prices are rising, and we must expect numerous demands for higher wages, accompanied by some labor trouble, during the next 12 months. This rise in prices and costs may not indicate monetary inflation in the narrow sense of the term. Instead it indicates a steady absorption of the available supplies of materials and skilled labor. Still, in broad language, it must be interpreted as inflation of prices and costs.

(4) Next there is the foreign exchange position—the strength of sterling, the amount of the exchange equalization account's gold reserves, and so on. Here I am not worried, even though our raw material imports are likely to increase still more both in quantity and cost. The reasons for my assurance are, first, the extent of our existing gold reserves and, next, the fact that many of our imports come either from the British Empire or from other countries in the sterling area. Also, the rise in world prices has restored the purchasing power of our overseas markets, and our export trade is already responding.

(5) Finally there is our internal banking and credit position. The points to watch for here are: any tendency towards an immoderate increase in the Bank of England's note circulation; any increase in joint-stock bank cash occasioned by purchases of "governments" by the Bank of England; and any sign that any such increase in bank cash is required solely to enable the banks to finance the defense program

without sacrificing their minimum reserve ratios. Again my own opinion is that there is little danger of this, and that the danger can be detected in time. Even if the banks took up the whole of the £80,000,000 annual defense borrowing, then an increase of 90 of bank earning assets to 10 of bank cash postulates a cash expansion of only £9,000,000 a year. An increase of this relatively small amount can hardly be called inflationary, and even this argument assumes that none of the new defense loans are taken up at all by the private investor. Even if the banks had to take up £200,-000,000, or half the full amount of £400,000,000, they could do so at the cost of a cash expansion of only £22,000,000 spread over five years.

Moreover, as I write, the new French financial reforms suggest an interesting possibility. If they succeed in their object, a large quantity of French money now in London will be repatriated, and to cover this repatriation the British exchange equalisation account will have to sell a large amount of gold. Now to buy and hold that gold, the government has had to increase the issue of treasury bills to the banking system, that is, it has had to borrow at short term from the banks. If the exchange account can sell its gold to France, then the banks can be repaid, and this will leave the banks free to lend at long term to the government to pay for the defense program. In one sentence, the government may be able to borrow from the banks against battleships because it no longer has to borrow against gold. If so, the banks may well be able to take up their quota of the defense loans without any expansion of their cash being necessary at all.

To sum up, the defense program should be well within our financial capabilities. There should be no credit or monetary inflation and only a very moderate (and not undesirable) increase in interest rates. The main risk is at the industrial and labor end of the program—whether the growth of bottlenecks may end in raising costs. This is becoming a serious danger, and the obvious remedy is to bring back into work the unemployed men and machinery now lying idle in the depressed areas. This is another problem which is easier to state than to solve in practice. Still the provision of adequate labor and materials must not be left to chance, and, if we can deal with this difficulty as it arises, the financial, monetary and economic aspects of the rearmament program will probably give rise to little anxiety.

The real trouble is that rearmament has come at the top and not at the bottom of the trade cycle. For that reason the whole problem requires careful handling if it is not to give rise to an inflationary boom followed by a disastrous collapse. I am not afraid of a shortage of savings. I am afraid of a shortage of materials and skilled labor, and a rise in prices and costs due to that cause.

Defense Comes High

By GEORGE E. ANDERSON

IT is significant of world conditions that, while nations fear war, they prepare for war and the mere preparation throws world finances into confusion. If such is the result of the preliminaries what is to be expected of ultimate realities? The challenge of Germany, Italy and Japan in international relations must of necessity be met by defense measures in Great Britain, France and, at least to some extent, in the United States. Germany has already built up a war preparation debt estimated at 20,000,000,000 marks, or around $8,000,000,000. Italy's armaments, built up primarily, or at least ostensibly, for the Ethiopian war, have been obtained at a cost whose total is not known but has shut that country out of the money markets of the world and has strained its internal resources to the utmost. Japan's funded debt has increased by two-thirds in six years to a total of over 10,-000,000,000 yen, practically all for armaments.

Now comes Great Britain with an announced $7,500,-000,000 five-year program which, according to British financial authorities, may be doubled if necessary to maintain the lead which the government is seeking as the minimum margin its national safety demands. In France seven out of every 10 francs raised by taxes goes to pay for past and future wars. Yet the government has maneuvered to secure a new national defense loan understood to amount to around 10,-000,000,000 francs, or the equivalent of $453,000,000.

Defense measures have lagged in the United States but the present record is impressive. Expenditures of this country on its navy in the fiscal year 1934 amounted to $274,-388,386; in 1935, $321,410,530; and in 1936, $391,424,149. Its estimated expenditures for the current fiscal year are $510,280,080 and for the next fiscal year $587,302,600. In the fiscal year 1934 the army spent $205,305,912; in 1935, $212,186,712; and in 1936, $373,014,977. Its estimated expenditures for the current year are $377,601,000 and for next year $393,460,400. Thus national defense, which cost the country $479,694,307 in 1934, will cost it in the next fiscal year an estimated $980,763,000. And the estimates are likely to be raised. High as are the estimates for the United States next year, they will be topped by about 40 per cent by the British outlays as so far announced, which may be raised considerably by supplementary estimates. Considering the difference in costs of construction and maintenance, the excess of British over American expenditures is much greater.

The immediate practical result of this situation is that the international position of the pound sterling has been weakened, while the French franc, already assailed by popular distrust growing out of governmental measures and the general international political outlook, has been forced down to the lowest point permitted in the revaluation law of last September, with strong probability that a new revaluation will become necessary.

The effect of armament expenditures in the United States, as in all countries, will be increased bank deposits and increased demand for commodities needed in armaments. That is likely to result in troublesome price disparities and a general rise in the price scale.

There ought somewhere to be a moral to this tale, but the most that an ordinary lay observer can get out of it is the impression that, so long as certain nations follow a policy of aggression, there is nothing other nations can do but to prepare to defend themselves. For many reasons the problem of defense and the outlays for armament in the United States are less serious than in most other countries. Nevertheless, as a matter of national insurance and for the protection of that minimum of trade which the pacifists in the country would permit the United States to retain in case of another world war, an increase in armament outlays is necessary. Defense comes high, but it is one of those things which must be accepted as the price of living in a mad world.

Consider a Borrower's Adplan

By BERTRAND R. CANFIELD

SALES and advertising methods are a vital factor in granting substantial lines of credit or making capital loans, in the opinion of leading bankers questioned by the Babson Institute in a survey just completed. While an accounting of books reveals valuable facts concerning inventory values, cash position and accounts receivable, balance sheets and profit and loss statements do not show the scope of sales activities or the possibilities for expansion or loss arising from marketing methods.

A borrower may be following poor merchandising methods that will lead to a substantial deficit, but such methods may not be at all apparent in an annual financial statement. Such postmortems do not usually show the faulty methods quickly or forcefully enough to remedy the situation. Failing to consider marketing methods, a bank may make a commercial loan and realize too late that the borrower was not a safe risk.

A leading New England banker expresses the growing interest of banks in the need for a thorough checkup of marketing methods: "We feel that sales and advertising are very important in considering the extension of credit, and the subject is always raised when substantial loans are granted. Recently we questioned a prospective borrower's sales policy because both sales and advertising were under control of an advertising manager whom we did not believe competent to direct sales. This situation, which we considered dangerous, was corrected and the chance of loss through poor sales direction avoided."

ONCE THERE WAS A GROCER

IN a large eastern city there was a successful grocery merchant who sensed a fine opportunity for a chain of grocery stores in his state. With the aid of a local bank, several stores were opened. More came later. But the business did not prosper. For some reason, the neighborhood housewives patronized competitors. Within a few years the grocery chain showed an operating loss in excess of $550,000. The management was in a dilemma. The bank resolved to get to the bottom of the difficulty and called in competent sales and merchandising counsel.

A thorough analysis was made of the merchandising methods of all the stores—their stock, interior and window display, selling methods, advertising. Many defects in marketing methods were found and remedied. Within a year a losing venture had been transformed into a profitable enterprise, and the finances of the chain had been placed on a sound basis.

Many bankers call upon experienced marketing counsellors with an outside viewpoint, analytical ability and long experience in studying sales problems in many lines of business, to advise borrowers whose loans are in default or make recommendations before granting capital loans.

The Babson Institute survey revealed a keen interest on the part of large and small bankers in giving greater consideration to marketing methods. As the head of a large national bank stated to the investigators: "A good risk requires both good merchandising and adequate working capital."

Important marketing factors given consideration by bankers in making substantial loans and in aiding customers whose sales and profits are declining are:

1. *Marketability of the Product.* Does the product conform to the demands of the market from the standpoint of price, appearance, variety of uses, distinctive features, name? Does it meet the customer's needs, tastes, ideas? Is the quality of the product suitable for the purpose or service for which it is designed? Are products of some other industry displacing the product? Can the utility of the product be increased by re-design? Can new uses be developed? Can its appearance be improved? Can the product be standardized or simplified?

2. *Market for the Product.* Who buys the product and why? How much and how often does each customer buy? Who are prospects for the product? Where are they located and how many of them are there? What new markets can be developed? What allied or related lines are customers buying? What per cent of sales are repeat orders? Are sales affected by climate, economic conditions, standards of living? Is the trend of demand rising or falling?

3. *Distributing Methods.* How many distributors of the product are there? Are sales made to wholesalers or direct to retailers? Is the product sold direct to consumers? Are chain stores employed? Are personal salesmen employed? Can it be sold by mail?

4. *Sales Organization.* How many salesmen are employed? How are they paid? Are the salesmen supervised, and how? What incentives are provided to induce salesmen to increase their sales? How are sales expenses controlled? How are sales territories established? Are salesmen routed? What types of salesmen are employed? How are salesmen equipped?

5. *Sales Management.* Is the management experienced, progressive, able to cope with changing industrial and economic conditions demanding new practices and adjustments in personnel? Has the management ability to analyze and plan as well as to execute? Is the sales management able to organize, coordinate and get the cooperation of company executives, distributors and salesmen?

6. *Sales Policies.* Are the sales policies sound or obsolete? Are they based on facts? Are policies "one man" or "conference" made? How do credit, price and service policies compare with competitors?

7. *Advertising.* What is the purpose of the advertising? How is the advertising appropriation determined? Is the business too small for advertising? Is enough advertising being done? Is the advertising agency competent? Does the sales force and distributing organization support the advertising? Are advertising funds properly distributed?

These questions put by bankers to their customers may reveal the undisclosed liabilities and assets which underlie a borrower's books and records and show the exact status of the business operations of a concern.

Counter Types

By J. H. SIMPSON

ONE of the disadvantages of working in a bank is that you encounter so many people with money. What I mean is that it is disconcerting to discuss with a customer the relative advantages of buying 500 shares of this preferred stock or that preferred stock and then have to go out and buy yourself a 25 cent lunch.

Perhaps that is exaggerating the thing a little; things, I am glad to say, are not quite as desperate with the Simpsons as that. I have, occasionally, expended 50 cents on a lunch. Unfortunately, however, I don't enjoy it. I think that in the years of frugality, working up, your stomach shrinks so that by the time you attain the affluence of 50 cent lunches you have lost not so much the desire as the capacity to assimilate them. Eating, really forceful and successful eating, has to be started young, like golf. Nevertheless the desire remains. That is one of the nasty things about life—desire remains, even grows, as capacity diminishes. Look at any golf club and observe the desperate attempts of the elderly rabbits ("rabbits" is English slang for a dub golfer; most expressive, what!) to break 90—a thing that any caddy could do with one club.

Speaking of disadvantages, my non-banking friends—not so much now as when I was a teller—used to say: "It must be an awful temptation, handling all that money". You know the line? Well, you also know that it's no temptation at all; you get so that the stuff becomes absolutely meaningless. There's no more similarity between the kind of dollars that make up the six-figure balance in Mr. Gottrocks' account and the kind that partially fills your own little pay envelope than there is between the Einstein theory and a ham sandwich.

But I do hold that it is mildly annoying to have Mr. Gottrocks come in and ask you "How am I going to make some money?" And they, the Mr. and Mrs. Gottrocks, expect you to be so interested and worried about their difficulties in making more money!

THE DEPRESSION YEARS WERE VERY PAINFUL

DURING the depression, of course, the thing was terrible. I used to go home all worn out with crying on plutocrats' shoulders about their worries. The only really happy people I encountered in the years 1930 to 1934 were the 25 cent lunchers—provided they had the 25 cents. The other kind were so jittery they are still just barely able to buy a new straight-8 or V-12 without shuddering at the expense. In extreme cases, before gold became just a tradition, I know of people who, with a deposit-box full of the stuff, used to let their friends precede them on to street cars.

Now it is not as bad. The better people are recovering their nerve. They are not so wild-eyed when they ask you if you consider a certain triple A bond absolutely safe. But in other ways many plutocrats are a sore trial. Consider your predicament if you have to tell them, in December, that their bonds were called in June!

Of course they're not all like that. And I might add that one of the delightful things about plutocrats in this country is that they are mostly very human and friendly. Well . . . perhaps that is putting it rather strongly, but what I'm thinking of is that in more class-ridden countries, such as England, where Mrs. Gottrocks will write her banker in the third person (e.g.: "Mrs. Montague Gottrocks is at a loss to understand why her post is being forwarded to her former address and asks that more care be taken in future") . . . in such countries the counter is an impenetrable bar.

True, I realize that in this country there are such things as plutocratic bankers. In the Canadian banks such are rare birds. Canadian bankers, of whom I am one, though transplanted (I can subscribe myself F.C.B.A. if I care to—and that means Fellow of the Canadian Bankers Association and $100 bonus)—Canadian bankers rarely get rich. They lead a fairly dignified, fairly comfortable life and progress slowly from 25 cent lunches to a membership in a golf club and, in due course, pension and the grave. Therefore I cannot speak authoritatively on the subject of plutocratic bankers. I can imagine though, that it must be a lovely feeling to be so independent as to be able to talk back, or not to talk back, as the spirit moves you. But I can't do that. I have to listen to their worries. And their joys.

THEY DON'T RECIPROCATE

PERHAPS it is even more provoking than listening to their worries, having yourself risked a couple of hundred on the market and lost half of it, to have to listen to customers' tales of thousands made over-night. In such cases I have occasionally tried to work up a little sympathy for my own failure to make easy money but I find it utterly useless. Jubilant customers are not going to unjubil just because of some feeble plaint of yours. But that, of course, is human nature. Going to the links again for a simile, what golfer, in the midst of telling you how he shot a birdie three on No. 4, and how he drove the green at No. 17, etc., is going to listen when you try to tell him of your getting into the rough, into the traps, into the brook, into the jaws of hell, for that matter? And so it is with tales of money.

But as there has been nothing very helpful in this article so far, I shall try to close on a constructive note by listing some results of years of experience. I shall call it "Advice to young bankers in dealing with plutocratic customers", and here it is:

(1) Listen patiently to their worries.

(2) Listen even more patiently to their joys.

(3) Remember they're just struggling for a living and always quote them the lowest possible rates.

(4) Don't miss called bonds.

(5) To make (4) easier, don't sell them callable bonds.

(6) Don't forget that they're either directors or pals of directors.

(7) Don't fail to recognize them or confuse them with insurance salesmen.

(8) Don't tell them "there's a pay telephone over there!"

Payroll Control

IN order to retain control over any increase in the payroll, it is necessary to provide a method for authorizing payroll changes to which the entire organization must conform. The functions involved in payroll changes are those of personnel and expense control, and it would be well, therefore, to tie these two functions into any routine which might be established. At the same time, such a method must be simple, direct and positive; it should not require the time of higher officials for decisions except where the matter is of relatively great importance. In the routine for payroll changes the two kinds of decisions are those of selection of personnel and increase of expense. Since one of the primary duties of the personnel department is to see that the right person is in the right job, no changes in the payroll should be made without concurrence by the personnel officer. Every change involving an increase in expense should pass through the budget or expense control division, and if the amount involved is above a certain point, the approval of the senior operating executive must also be secured, whether he be the president, executive vice-president or cashier.

WHEN HELP IS WANTED

FIGURE 1, "Requisition for Personnel", shows the form used for asking and obtaining authority to place a new employee on the payroll. It follows this course through different departments:

1. The supervisor who requests additional help, either because of a new position created or a vacancy caused by resignation or otherwise, fills out the requisition and signs it.

2. The requisition goes, either directly or through an intermediate official, to the department head for his approval.

3. (a) The form now goes to the planning department, which passes on the need for additional help. This analysis may involve a considerable study of the routine in the particular department.

(b) If the request is to replace a resigning employee, the form goes direct to the personnel officer without passing through the planning department.

4. The requisition comes to the personnel department, either from the planning department or direct from the department in which it originated. If the position is a new one, it will be accompanied by a "job analysis", prepared by the planning department; this analysis will be a sufficient description of the position to be filled so that the personnel department will know what kind of worker to select. If the position is one already existing, the personnel department consults the job analysis description already on hand for the employee qualifications. The personnel department then sets the proper salary figure, according to the job analysis and salary standards pertaining to the particular position. This is entered in the space near the bottom and the requisition is sent to the expense control division.

5. The expense control division makes such analysis of budget allowance, etc., as may be necessary and, if the request is in order from this standpoint, approval is placed on the form by a rubber stamp and initials.

6. (a) If the salary of the new employee exceeds $2,000 per year, the form is now sent to the president or other senior operating executive for his approval. It will be noticed that if the president is asked to approve the matter he knows that it has received the consideration of the department head who is responsible for operations; the planning department, which is responsible for operating methods; the personnel department, responsible for assignment of the proper salary and for the selection or transfer of personnel; and the expense control division, which is operating the budget. By this time his decision is a comparatively easy one, but it is believed desirable to have it in cases involving very much money, and this routine assures him of control over payroll.

(b) If the designated salary does not exceed $2,000 per year, the completed form is returned to the personnel department without going to the president.

7. After the preceding steps, the form is returned to the personnel department, which then selects a suitable candidate. This may occur either by new employment or by transfer. If it is done by transfer, then the requisition is the authority to replace the transferee. In some cases half a dozen transfers and promotions are made.

WHEN SOMEONE IS HIRED

FIGURE 2 shows the "Change in Status". This form covers any change in payroll status of an employee. If a new employee is to be put on the payroll, as previously authorized by the requisition, this change-in-status form serves as authority and as a source of information for placing a particular individual on the payroll. The distinction between requisition and change of status form should be noted. The requisition will serve to authorize employment of "a person"; the change in status form authorizes placing on the payroll the name of "a particular person", namely, John Doe. If the position is to be filled directly by a new employee, the personnel department sends one or more candidates to the operating department. Oral agreement is reached with the department on the selection of a candidate.

1. The change in status form illustrated in Figure 2 is often originated by the personnel department and the name, address, and other information regarding the new employee are entered on it.

2. The form is now sent to the expense control division where it is checked against the original requisition covering this employment and if the change in status is in order it is now approved by rubber stamp and initials.

3. (a) If the salary is $3,000 or greater, the change in status now goes to the president for his approval.

(b) If the salary is less than $3,000 a year, the form goes back to the personnel department without going to the president.

4. When the change in status form is received back in the personnel department, it is duplicated in four copies which are sent as follows:

Copies number 1 and number 4 go to the payroll department. Number 4 is acknowledged and returned to the personnel department for filing to close its records.

By EDWARD N. HAY

Number 2 goes to the audit department.

Number 3 goes to the operating department where the new employee is to work, for their information.

When the employee is to be transferred instead of newly employed, the department releasing him does so by signature at the bottom as indicated. The form then goes back to the personnel department which negotiates with the department to which the employee is to be assigned, and if these arrangements are satisfactory the form goes to that department for signature in the place marked "Requested". The remainder of the procedure is as in other cases.

Terminations of employment are invariably originated in the department concerned. The personnel department does not take the responsibility of initiating any terminations, transfers or changes in pay, except informally and orally. It will be seen by the change in status form that every department affected by the change indicates its approval in writing. In nearly three years during which this routine has been followed in a large eastern bank, there has been no case in which any department has raised an objection to a change that has been made because of that department not having given its assent.

There are several additional details that are essential to the satisfactory working of this routine that should be described. An important one is the record of requisitions issued. This is known as the personnel requisition register and is divided into two parts, one for permanent employment and one for temporary. The register contains the following information: date of requisition, serial number of requisition, name of position to be filled, department, division and section in which the position occurs, and salary suggested. When the requisition is finally approved by all those concerned, a change in status form is issued.

A change in status register is required and it is likewise divided between permanent and temporary and contains information similar to the requisition register. In order to keep track of the movement of these papers, another register is kept which shows the serial number and the date on which the papers were sent to the various departments whose approval is required, and the date of their return with all signatures.

At the end of each month a summary of payroll changes is made in the personnel department, which is the headquarters for all payroll control routine. This summary begins with the entire per annum payroll of the bank in dollars, following which are the names of those who have been dropped from the payroll, with reasons therefor and the amounts of their salaries. Next come additions to the payroll, with names of individuals and reasons for their employment, along with the salaries involved. Finally come salary increases. The net balance after these three items are added gives a new total which is the new per annum payroll of the bank. Copies of this report are sent to the president and to the expense control division and to the auditor. The whole routine is in such condition that it can readily be audited at any time.

Figure 1

(about one-fourth actual size)

REQUISITION FOR PERSONNEL

(Use a separate blank for each request)

Date................

TO: *Personnel Department*

Please employ.............man ( ) woman ( ) boy ( )

For position of..

In the............Department.........Division........Section

Reason:...

....

....

....

To start work.............Permanent ( ) Temporary ( )

If temporary, for what period required.......................

If you know anyone who would be satisfactory for this position, give name:..

Name of person employed.......... Change of Status #.........

Requested:..........................
SECTION OR DIVISION HEAD

Approved:..........................
DIVISION OR DEPARTMENT HEAD

Approved:..........................
OFFICER IN CHARGE OF DEPARTMENT

This (will) (will not) be an addition to the payroll amounting to $............per year.

....
Personnel Officer

Approved:.....................
President

Figure 2

CHANGE IN STATUS

Date.....................

Name....................... Department................

Address..................... Division..................

Telephone No................ Section...................

Position.................... Unit......................

( ) EMPLOYED as of 9 A.M..............................

Rate of pay $.............Permanent ( ) Temporary ( )

( ) TRANSFERRED as of 9 A.M...............to position of

......................in.....................Department

......................Division...................Section

......................Unit..............................

Present rate of pay $....................

( ) CHANGE IN RATE OF PAY as of 9 A.M.................

from $.......................to $......................

( ) EMPLOYMENT TERMINATED as of 5 P.M................

REMARKS:...

....

....

....

Released.................... Requested..................

Approved.................... Approved...................

Approved.................... Approved...................

This (will) (will not) be an (addition) (reduction) to the payroll amounting to $........... per year.

....
Personnel Officer

Approved......................
President

How Factors Work

By EDWARD H. COLLINS

FACTORS, besides underwriting clients' sales and buying their bills without recourse, as pointed out last month in BANKING, will go a step further. A factor will advance a client almost the full amount of his receivables, a small balance being retained as surety against claims and allowances. Most firms are glad to pay the charge for this service, usually 6 per cent annual simple interest, for it results in putting their trade virtually on a cash basis.

What, it may be asked, are the practical advantages of such an arrangement from the standpoint of a client? The best answer to this is to list some of the types of concerns that turn to the factor for aid. One typical client, for example, would be the firm which was interested in confining itself entirely to production; another would be a firm a part of whose sales might have to be made to a class of trade with which it was unfamiliar (this might be said to apply to the big finance companies that have taken over factoring firms); a third would be a firm which had little working capital and had to use that sparingly; a fourth would be a firm which desired to keep its overhead down to a minimum and hence did not wish to install its own credit department; a fifth would be a firm in which the management was interested in keeping business on a cash basis; and a sixth would be one which wanted to put itself in a better position to borrow from its bank.

Two examples will, perhaps, suffice to show how the factor can help the financial position of a concern. Let us, for instance, take a company which wishes to improve its cash position, perhaps for the purpose of making a bank loan. Before turning its receivables over to the factor and drawing down the proceeds in cash, its position is this:

Quick Assets	
Cash	$20,000
Accounts receivable	100,000
Inventories	180,000
Total	$300,000
Quick Liabilities	
Owed to banks	$50,000
Accounts payable	150,000
Total	$200,000
Ratio of quick assets to quick liabilities	3 to 2

But suppose the factor discounted the accounts receivable and the manufacturer decided to use the proceeds to reduce both bank loans and accounts payable:

Quick Assets	
Cash	$20,000
Inventories	180,000
Total	$200,000
Quick Liabilities	
Owed to banks	$25,000
Accounts payable	75,000
Total	$100,000
Ratio of quick assets to quick liabilities	2 to 1

Or, suppose that this same firm wished to use the cash proceeds of its sales to increase production. Let us suppose that the bulk of the demand for the company's goods fell in the last four months of the year, and that if it had the cash the firm could do 30 per cent more business. Even though circumstances might be such that the company was unable to obtain a bank loan, it might turn to the factor to discount its maturing bills receivable.

Incidentally, the rate of 6 per cent is a fixture in the factoring business. It seems pretty badly out of line with going rates for short time advances today, but the factors have an answer for this. In the first place, they say, the 6 per cent rate, though it is not reduced in such abnormal times as the present, is not raised when money is tight. The factoring business likes to point to the fact that as a whole it always has been prepared to advance funds to its clients.

A FEW COMPARISONS

IT will be seen, then, that factors represent a distinctive type of business enterprise. They differ from commercial banks in that the latter usually lend on general credit rather than on receivables. The finance companies have a good deal in common with factors, yet here, too, there is a difference (as must be obvious from the fact that the finance companies have been using factors to expand the field of their activities). Technically, the principal differences between finance companies and factors are (1) the relationship of the factor to its customer is less casual and more intimate than that between the finance company and its client, and (2), whereas the finance companies lend on receivables, the arrangement between the factor and the manufacturer is that the former places a drawing account at the disposal of the latter.

Among the fields, other than textiles that have been entered by the factor in recent years have been china, crockery, clothing, household appliances, glassware, shoes, furniture — in fact, nearly every industry that sells to large retailers or wholesalers on open credit. As one experienced factor has put it, the client must meet only two tests: (1) It must deal with customers from whom credit information may be obtained; and (2) the total volume of its sales should be not less than $500,000.

It has been shown that the factor represents a unique type of business or financial institution; and it has been shown that it has a distinct field of usefulness in the business and industrial world. It remains to say a word about its relationship to commercial banking, and specifically attempt to reply to the question, frequently raised, as to whether it is a form of competition or a source of business. On the whole it would seem to be less a competitor than a customer. It is true that the factor provides certain banking functions for business, but for the most part these do not represent a duplication of the business of the commercial banks. On the other hand, the factors not only have to go to the banks for their own money, but they also are able to make better risks, from a banking standpoint, of the companies they serve.

BANKING'S PICTURES

Thrift Begins

A schoolroom where the students are enrolled in the Los Angeles City and County School Savings Association

How we fill the boxes

The badges we wear

A student-written jingle is thrown on the screen

How we go to the bank

School Savings and Attendance Report Calendar

Issued by Los Angeles City and County School Savings Section

Score 3 Points (or 3 stars) for each New School Savings Account Opened
Score 1 Point (or 1 star) for each deposit thereafter
Score 1 Point (or 1 star) for each day with no unexcused absences or tardiness
Leave the square blank when the day's record is not perfect

Home Room
Total School Savings Score
Total Attendance and Punctuality Score
Teacher's Name

1937 MAY 1937

SUN.	MON.	TUES.	WED.	THUR.	FRI.	SAT.
23/30	24/31	25	26	27	28	29
	School Savings Account	School Savings Account	School Savings Account	School Savings Account	School Savings Account	
	Attendance and Punctuality	Attendance and Punctuality	Attendance and Punctuality	Attendance and Punctuality	Attendance and Punctuality	

Please send this sheet to your Faculty Thrift Chairman immediately at the end of the month

Part of the calendar that helps keep the record

This is how they count the money

One way some of the boys make money. (Selling old paper.)

A certificate that we can earn

Thrift Certificate

Know all by these presents that ____________________

is a Thrift Honor Pupil of ____________________

and is therefore entitled to this

Award of Merit

in recognition of an excellent record made by obeying the school and home rules of thrift practices during the past school year.

Issued this day of

In testimony whereof we have affixed our signatures.

Issued by

Approved:

President, Los Angeles Board of Education

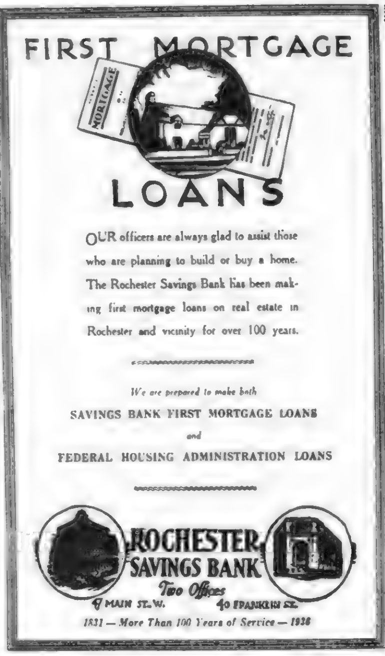
Superintendent of Schools

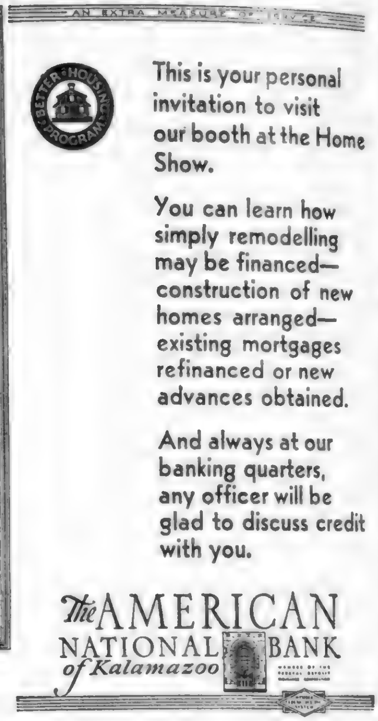
Principal

A. J. Gray, Director.

Money to Build

A Few Selected Bank Advertisements on an Important Phase of Lending





Recent Authors

HARRIS & EWING

LABOR'S BIRD-IN-HAND

An outstanding function of unionism is that of "lobbying" for legislation, much of which the union leaders think will support the wage interests of their members. These lobbyists, like the general mass of their constituents often adopt short-sighted policies. . . . The higher wage rate, however, is the bird in the hand; the fuller employment which lower rates might yield corresponds to birds in the bush, whose number and reality are much harder to ascertain.—Z. Clark Dickinson, *Compensating Industrial Effort* (Ronald Press)

A WELL MEANT TAX

The objective of those who seek to stabilize business conditions through the application of an undistributed profits tax to corporate saving is commendable, but the tax which has been adopted has not been formulated so as to give any great control over economic conditions. It is primarily a revenue measure and by itself is totally inadequate to assure economic stabilization. Employed in conjunction with other vehicles of industrial stabilization, the tax . . . may tend to increase instability.—Alfred G. Buehler, *The Undistributed Profits Tax* (McGraw-Hill)

FAIR TAX SAVINGS

Experience shows that on almost any given set of facts, skillful handling will effect remarkable savings in Federal taxes. It can probably be demonstrated that the difference between the amount of the tax shown by the stereotyped tax set-up and that resulting from skillful preparation is from 10 per cent to 90 per cent of the amount of the tax . . . and the employment of skillful tax practitioners can save 30 per cent. . . . Real tax savings are made in the open by fair means and with full disclosure.—Howe P. Cochran, *Scientific Tax Reduction* (Funk & Wagnalls)

MUDDLED FINANCES

The study of inflationary phenomena teaches the tremendous and unpredictable power of the psychological element; and that unbalanced budgets, large floating debts and an inflated currency preclude any considerations based on "normality". Conditions—economic, financial and political—may appear to be moving "normally" but any spark may touch off the powerful charges of dynamite that lurk in disordered government finances and unsound money.—Henry L. Shepherd, *The Monetary Experience of Belgium, 1914–1936* (Princeton University Press)

EXAMINE HISTORY

The energy of generations of pioneers directed to the exploitation of unrivalled natural resources has created a nation whose resources and wealth place it among the great powers of the world, but the problems of the future bid fair to be quite as important and probably more difficult to meet than those of the past. . . . What that future will be depends to no small extent upon a proper understanding of our past history and an intelligent program for the years to come.—Harold Underwood Faulkner, *Economic History of the United States* (Macmillan)

READJUSTMENT OBSTACLES

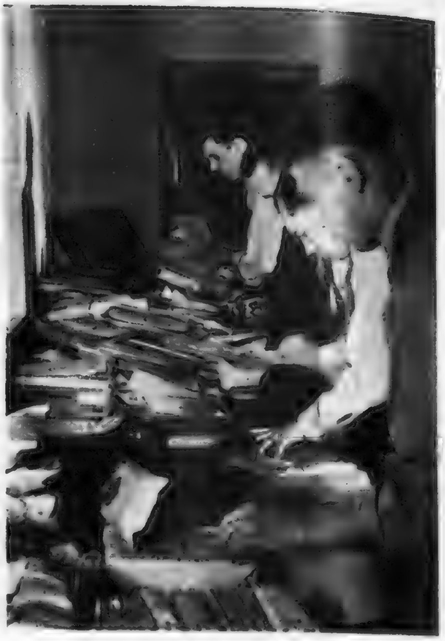
It is probable that many of the price inflexibilities and other obstacles to the prompt readjustment of economic relations that industrial change necessitates arise from faulty policies in business administration and labor organization, monopolistic and semimonopolistic "pockets" in the competitive system, needless rigidity in rate regulation, attempts at control that outrun our knowledge of the forces and relations involved.—Frederick C. Mills, *Prices in Recession and Recovery* (National Bureau of Economic Research, Inc.)

CHIDNOFF

FREE MOVIE

FILM—

"The Federal Reserve Bank"



Right: Employees of the Minneapolis Federal Reserve Bank opening "cash letters" containing checks for collection

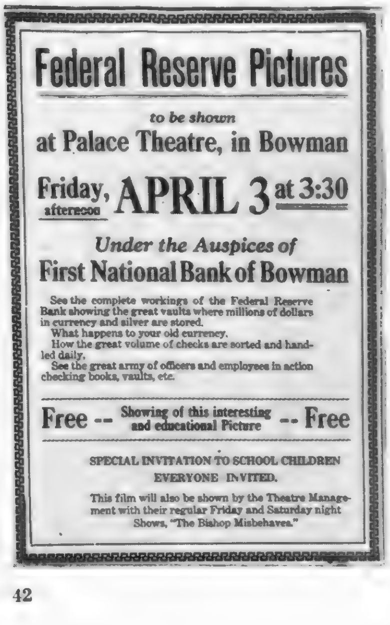
THE Federal Reserve Bank of Minneapolis has produced a three-reel motion picture, *Back of Banks and Business,* with sound, dialogue and musical accompaniment. Its purpose is to establish a better understanding of the aims and functions of the Federal Reserve System.

Seeing the film, the spectator takes a trip through the Minneapolis bank while a narrator describes the part each department plays in the institution's work.

The film is available for both theater and portable machine projection, and the number of requests for showings has necessitated the bank's putting four portable projectors into the field. In 588 showings of the film it is estimated that audiences aggregated 124,314. Groups that have seen the picture include high schools, theater audiences, county banker groups, Rotary clubs, community clubs, a college of mines, bank employee groups, teachers' college students, business men's groups and chambers of commerce.

Below: Sorting and tabulating coupons from Government securities

Below, left and right: Announcements of the Federal Reserve film, as they appeared in various cities



Federal Reserve Pictures

to be shown

at Palace Theatre, in Bowman

Friday, afternoon APRIL 3 at 3:30

Under the Auspices of

First National Bank of Bowman

See the complete workings of the Federal Reserve Bank showing the great vaults where millions of dollars in currency and silver are stored.

What happens to your old currency.

How the great volume of checks are sorted and handled daily.

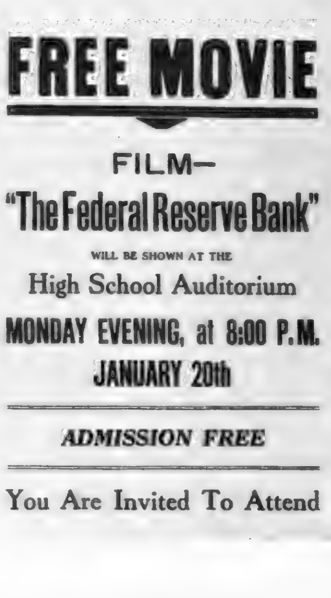
See the great army of officers and employees in action checking books, vaults, etc.

Free -- Showing of this interesting and educational Picture -- Free

SPECIAL INVITATION TO SCHOOL CHILDREN

EVERYONE INVITED.

This film will also be shown by the Theatre Management with their regular Friday and Saturday night Shows, "The Bishop Misbehaves."



FREE MOVIE

FILM—

"The Federal Reserve Bank"

WILL BE SHOWN AT THE

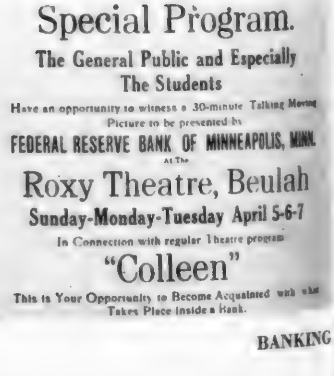
High School Auditorium

MONDAY EVENING, at 8:00 P.M.

JANUARY 20th

ADMISSION FREE

You Are Invited To Attend



Special Program.

The General Public and Especially The Students

Have an opportunity to witness a 30-minute Talking Moving Picture to be presented by

FEDERAL RESERVE BANK OF MINNEAPOLIS, MINN.

At The

Roxy Theatre, Beulah

Sunday-Monday-Tuesday April 5-6-7

In Connection with reguler Theatre program

"Colleen"

This is Your Opportunity to Become Acquainted with what Takes Place Inside a Bank.

The photographs on these and the two following pages are "stills" from the moving picture, *Back of Banks and Business*

A machine that cuts unfit currency, preparatory to shipment to Washington for destruction

A sack of miscellaneous coins can be poured into this machine, which will then sort and count them by denominations

"The Federal Reserve Bank"

HIGH SCHOOL AUDITORIUM

Wednesday, March 18th

7:45 P. M.

Public Invited

NO ADMISSION CHARGE

THIS IS YOUR OPPORTUNITY

to become acquainted with what takes place in a bank and to learn the mechanics and daily operation methods of the banking business. It will be just like taking a trip through the Federal Reserve Bank of Minneapolis, seeing the many employees at work, the thirty or more G-Men on guard, the great vault with it's thirty-ton door and many of the other features of the bank. You will see the checking department in action, making clearings between banks all over the Northwest, and see millions of dollars in currency drafts and checks handled with speed, accuracy and safety. You will have an opportunity to learn how an industrial loan is made.

The picture is most interesting and educational and travels at a very fast pace. You will enjoy it. Don't miss it!

Shown Through the Courtesy of:

MONTANA NATIONAL BANK

Member Federal Deposit Insurance Corporation

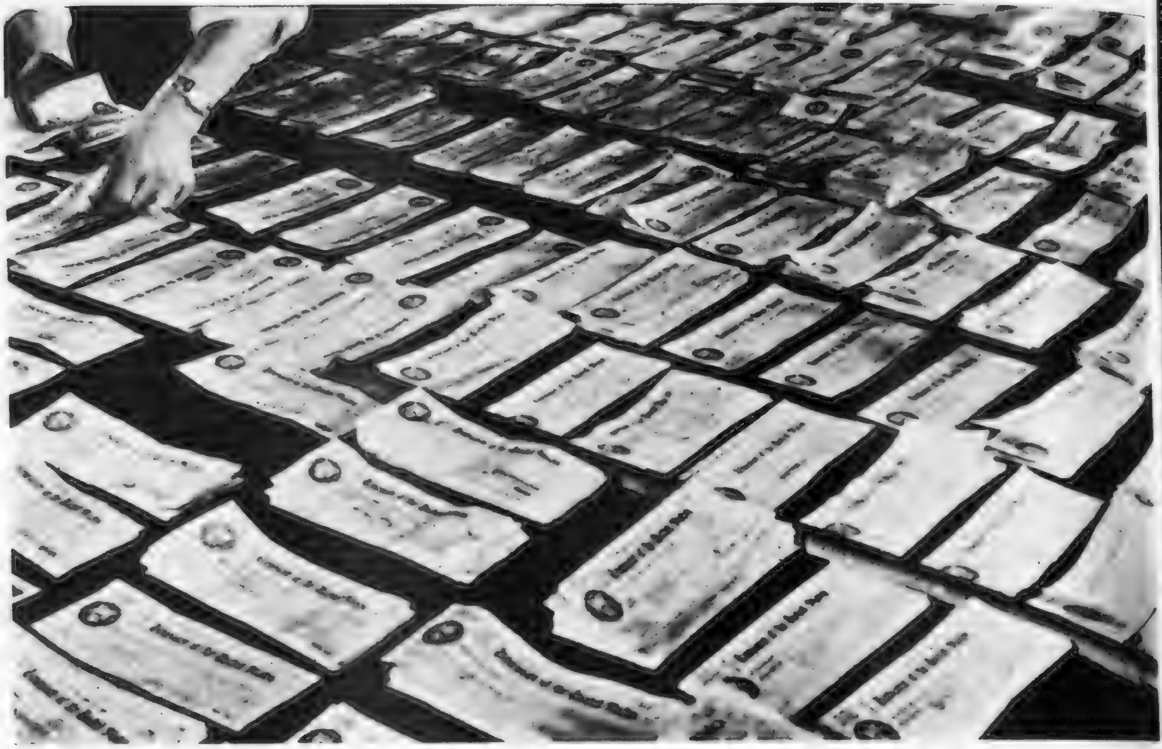
Havre, Montana

HILL COUNTY STATE BANK

Member Federal Deposit Insurance Corporation

Havre, Montana

Above: An employee sorts currency which has been returned to the Minneapolis Reserve Bank by a member institution



Sorting Treasury checks according to serial numbers of disbursing officers

Federal Reserve Bank Film Shows 'Wheels Go 'Round'

An electrical machine which counts silver coins "like nobody's business" will be among the scenes shown Wednesday and Thursday in the film which depicts the arrangement and activities in the federal reserve bank at Minneapolis. The showing is sponsored by the Montana National bank.

On Wednesday, at 7:45 p. m., at the high school auditorium, the film will be shown to the public without any charge. Taking 31 minutes to run, the showing will be over in time to permit any who wish to go to the local 9 o'clock show. However, if others come, the picture will be run again, it was stated.

On Thursday night the film will be shown at a joint meeting of the Kiwanis and Lions club with

'Talkie' On Bank To Be Presented Today and Thurs.

C. W. Groth, Minneapolis, arrived in Havre Tuesday afternoon with the "talkie-movie" which shows and tells all about the federal reserve bank of Minneapolis, which is to be shown in Havre today and tomorrow under the sponsorship of the Hill County State bank and the Montana National Bank.

This film will be shown to the public at the high school auditorium this evening at 7:45 o'clock, free of charge. A cordial invitation is extended to everyone interested. The showing of the film takes only 31 minutes, so anyone wishing will be free to attend other engagements later, it was said. However, if more people come to view the film than can see it at one showing, the film will be run again

Packed House Sees Reserve Bank Film

A standing room only house, at the New Liberty, saw the highly interesting and educational screen story and demonstration of the workings of the Minneapolis, district 9, branch of the Federal Reserve bank, Wednesday afternoon.

It is an excellently prepared motion picture accompanied by an engaging lecture and explanation. Officials and hundreds of employes were shown at work. Currency, coin and bonds by millions came into the scenes. Directors meetings, conversations with hypothetical borrowers and many practical illustrations of the methods and purposes of the reserve system were concisely shown. A demonstration of the speed and efficiency with which large transactions between widely separated cities are made was aptly illustrated in one of the many charts shown.

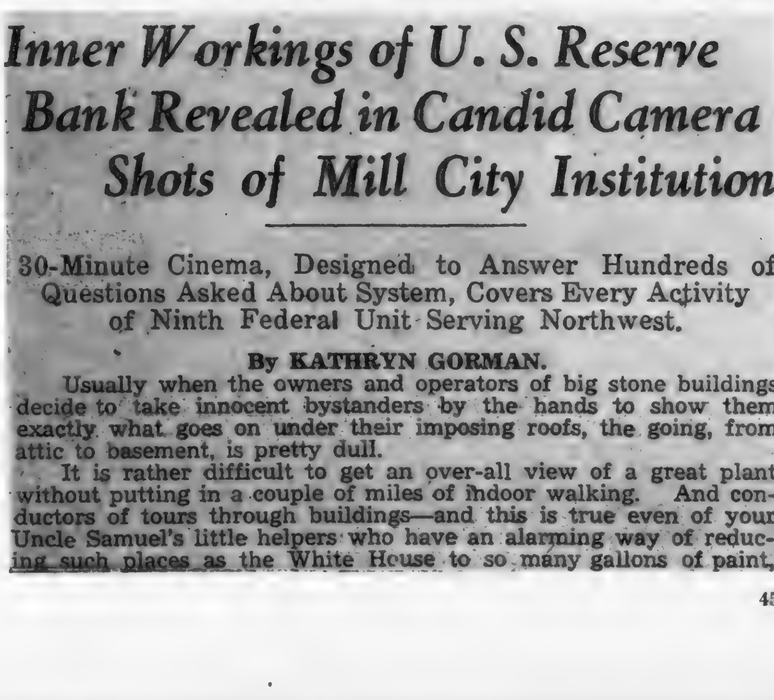
The organization of the armed and armored force for the protection of the vast values in the bank's keeping was especially im-

Right: A box containing currency is placed in a machine which binds it with metal straps

Below and right: One of the bonds from the safekeeping files of the Minneapolis Bank

Below: An issue of currency from the Federal Reserve Agent to the Federal Reserve Bank

At the left and right: A few of the many newspaper clippings from cities and towns in the Northwest where the Federal Reserve Bank's film has been shown. From reading them one can see that the picture made an excellent impression wherever it was shown, whether the audience consisted of public school students or business men



Inner Workings of U. S. Reserve Bank Revealed in Candid Camera Shots of Mill City Institution

30-Minute Cinema, Designed to Answer Hundreds of Questions Asked About System, Covers Every Activity of Ninth Federal Unit Serving Northwest.

By KATHRYN GORMAN.

Usually when the owners and operators of big stone buildings decide to take innocent bystanders by the hands to show them exactly what goes on under their imposing roofs, the going, from attic to basement, is pretty dull.

It is rather difficult to get an over-all view of a great plant without putting in a couple of miles of indoor walking. And conductors of tours through buildings—and this is true even of your Uncle Samuel's little helpers who have an alarming way of reducing such places as the White House to so many gallons of paint,

Students of Industry

FOR some time bankers have been learning about another side of business through industrial tours conducted by chapters of the American Institute of Banking. On this and the two following pages is a pictorial record of such a trip, participated in by about 45 members and guests of the Essex County (N. J.) Chapter of the A.I.B., who visited some important industries in the neighborhood of Newark. Similar tours of other A.I.B. chapters will be covered photographically in BANKING'S pages in future issues.

The Health-Products Corp. *Above, left:* Storage tanks for chemicals; *right*, rotating drums for coating tablets

Left: Packing medicinal chewing gum; *right:* cages of monkeys on which chemical extracts are tested

Rats used for extract tests

Tubs of chewing gum in the raw

On the way to the next factory

In a modern toy shop

In the Lionel Corp., the beginnings of electric locomotives

Armatures for electric trains

An intricate toy manufacturing machine

Mechanical toys on the assembly line

At the Alderney Dairy Company the A.I.B. group hears an explanation of pasteurization. Mr. A. E. Long, who explained the manufacturing processes, commented on the unusual interest shown by the group and the intelligent questions they asked

The various steps in making milk products are explained

Left: Part of the heating and cooling equipment; *right:* a sample of ice cream at the end of the visit

(For further details, see announcement on the page opposite)

Meetings and Activities

REGISTRATION for the third resident session of the Graduate School of Banking has been in progress for several weeks, and indications point to the closing of enrollments before the final registration date, May 15. The number of new applicants is limited to the first 200 bankers who meet the school's entrance requirements.

Meanwhile, plans are going forward for extending the facilities placed at the disposal of the banking students by Rutgers University at New Brunswick, New Jersey, where the resident sessions are held. With admission of this year's students who will constitute the Class of 1939 the student body will approximate 600 bankers, and arrangements are being made to provide accommodations for the newcomers.

The resident session opens on June 22 and closes July 3 with the graduation of the school's first class.

Banker–Farmer Cooperation

THREE states—Wisconsin, Vermont and Kansas—attained the goal of 1,000 points each in 1936 in the rating program of the Agricultural Commission, American Bankers Association, it is announced by Dan H. Otis, director.

In all three states the bankers are doing a large amount of constructive work in helping to maintain agriculture on a business-like, efficient basis, Mr. Otis says. He gives the following details of the rating program:

Wisconsin. The Bankers Agricultural Committee, headed by Frank H. Bixby of the Bank of New Richmond, New Richmond, for the past five years has had as a major project increased alfalfa production and helped bring the state's acreage beyond the million acre mark. Another project that has had support is the Future Farmers of America and 4-H Club work. More recent activities center around soil conservation and emergency measures during the drought to assist farmers secure feed and retain livestock where unfavorable conditions would have forced unwise sale.

Vermont. The Agricultural Committee of the Vermont bankers, headed by H. M. Baldwin of the Winooski Savings Bank, has a long-time record of attainments. Pasture improvement has been one of the major projects. Demonstration plots were established and gave convincing proof of its value. Four-H Club work has also had hearty support of Vermont bankers, who for several years have made a special contribution of $10 each for this work. Emergency gardens established over the state did much to tide over the depression period.

Kansas. The Kansas Bankers Agricultural Committee is headed by A. D. Jellison of the Central National Bank, Junction City. Seven years ago Kansas bankers cooperated in the formation of two Farm Bureau-Farm Management associations. The value is evidenced by their continuance through the depression and another similar organization is being started. Legume projects have been outstanding and weed eradication has received special attention.

The six states that have previously scored 1,000 points in bankers' agricultural activities have again repeated their outstanding records and are still on the honor roll. These states are given below, together with the number of years they have attained a perfect score:

State	*No. years with honor rating*
Oregon	8 years
Georgia	7 years
North Dakota	6 years
California	3 years
Washington	3 years
South Dakota	2 years

Pacific Coast Trust Conference

THE 15th annual Trust Conference of the Pacific Coast and Rocky Mountain states will be held in Portland, Oregon, August 12, 13 and 14, Blaine B. Coles, President of the Trust Division, American Bankers Association, has announced. Local committees of Portland trust men will make arrangements for the meeting.

State Bank Division Projects

PRESIDENT H. M. Chamberlain of the State Bank Division, American Bankers Association, has sent to the members an outline of projects for the current year as formulated by the officers of the Division and approved by its Executive Committee.

Mr. Chamberlain expresses the belief that "if anything is going to be accomplished, it will not be done by a committee but by the cooperative effort of every bank," and the hope that wide interest and suggestions may be aroused in furthering the program. In projects affecting other units of the

association, he says, cooperation will be extended also in promoting their success.

Among the projects listed in the outline is the preservation of the dual system of banking and state autonomy in respect to branch banking. Of this Mr. Chamberlain says in part:

"This, in the opinion of the Executive Committee, is of the utmost importance. The Committee has charged the Committee on State Banking Departments with the responsibility of taking initiative action in looking to the preservation of the dual system of banking.

"At the same time the Executive Committee placed on the Committee on Federal Legislation the duty of combating in every legitimate way the extension of branch banking across state lines by Federal authority with the view to retaining to the several states the initiative now held by them as to how far branch banking may be practiced in such state.

"Among the other projects are Postal Savings competition, relationship to Federal Reserve System, customer relations, state bank research and several items of state legislation.

"One of the most important things in the program of the American Bankers Association is to secure the membership of those banks that do not belong. It is therefore the paramount duty of all of us to exert every effort that we can to secure those who do not belong, in order that our program may get the most effective cooperation."

In addition to these, a number of other important projects are listed in the outline.

School Savings Forum Proceedings

THE proceedings of the school savings forum, held in conjunction with the Spring Savings Conference of the Savings Division, American Bankers Association, March 11 and 12 in New York City, have been issued in mimeographed form.

The subjects covered are: thrift education; training in money management; thrift education in the schools; a principal talks on thrift education; shortest methods of handling school savings, collections and deposits; methods of operation; trends in school savings under improved methods of operation; making school savings profitable; value of prizes, contests and other inducements in school savings; effective methods of stimulating school savings, and summary of survey on school savings departments in mutual savings banks.

CONVENTIONS

A.B.A. Meetings

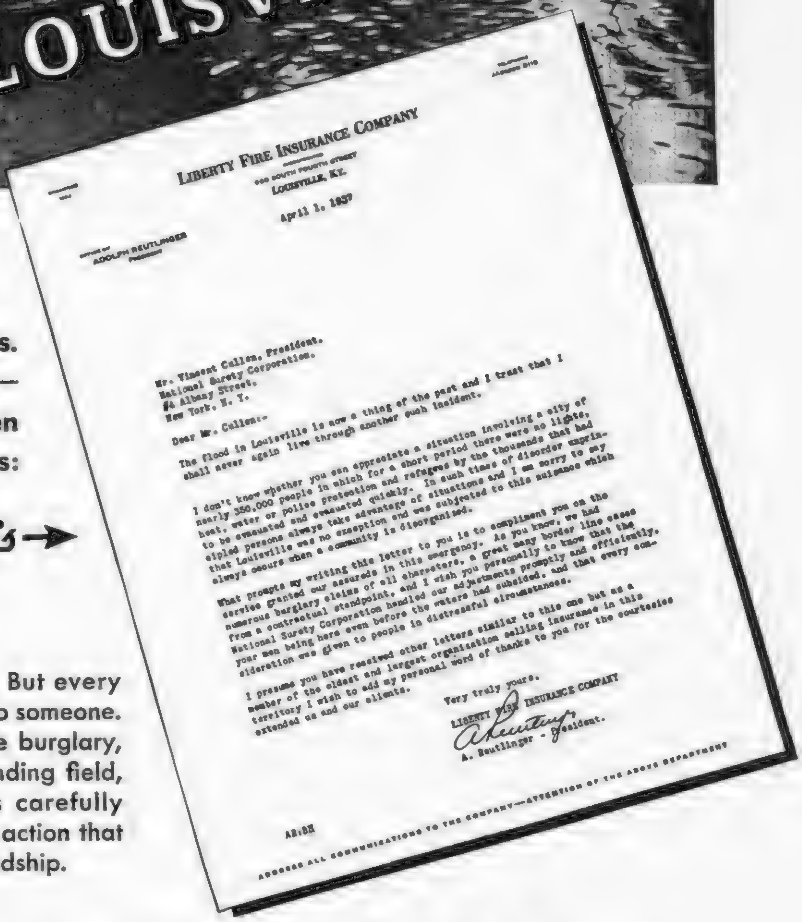
June 7–11	American Institute of Banking, Hotel Lowry, Saint Paul, Minnesota
June 22–July 3	Graduate School of Banking, Rutgers University, New Brunswick, New Jersey
Aug. 12–14	Annual Trust Conference of the Pacific Coast and Rocky Mountain States, Portland, Oregon
Oct. 11–14	A.B.A. Convention, Statler Hotel, Boston, Massachusetts

State Associations

May 3–5	Arkansas, Hotel Marion, Little Rock
May 4–5	South Carolina, Charleston
May 5–6	Indiana, Indianapolis
May 6–7	North Carolina, Carolina Hotel, Pinehurst
May 6–7	Oklahoma, Oklahoma City
May 10–12	Missouri, Jefferson Hotel, St. Louis
May 11–12	Tennessee, Andrew Jackson Hotel, Nashville
May 12–14	California, The Huntington, Pasadena
May 12–14	Kansas, Wichita
May 13–14	Maryland, Hotel Traymore, Atlantic City, New Jersey
May 18–20	Texas, Gunter Hotel, San Antonio
May 19–20	Ohio, Deshler-Wallick Hotel, Columbus
May 20–22	New Jersey, Traymore Hotel, Atlantic City
May 24–26	Illinois, Chicago
May 26–28	Pennsylvania, Hotel Traymore, Atlantic City, New Jersey
May 27–28	Alabama, Hotel Tutwiler, Birmingham
May 27–31	District of Columbia, Greenbrier, White Sulphur Springs, West Virginia
May 27–June 1	New York, Aboard S. S. Washington sailing to Bermuda
May 31	Arkansas Junior Bankers Educational Conference, Russellville
May 31–June 2	Iowa, Hotel Warren, Sioux City
June 3–4	South Dakota, Rapid City
June 8–9	Mississippi, Edgewater Gulf Hotel, Edgewater Park
June 10–11	Idaho, Hotel Rogerson, Twin Falls
June 10–12	Massachusetts, New Ocean House, Swampscott
June 11–12	Georgia, Rome
June 11–12	North Dakota, Fargo
June 14–15	Oregon, Pilot Butte Inn, Bend
June 15	Connecticut, Norwich Inn, Norwich
June 16–18	Minnesota, Lowry Hotel, St. Paul
June 17–18	Washington, Bellingham
June 18–19	Colorado, Stanley Hotel, Estes Park
June 21–22	Utah, Bryce Canyon Lodge, Bryce Canyon
June 24–26	Virginia and West Virginia (Joint Convention), the Greenbrier, White Sulphur Springs, West Virginia
June 24–27	Michigan, Grand Hotel, Mackinac Island
June 25–26	Montana, Many Glaciers Hotel, Glacier National Park
June 25–27	Maine, Mount Kineo Hotel, Moosehead Lake
June 25–26	Wyoming, Sheridan
June 26–29	Wisconsin (Cruise)
July 12–17	North Carolina Bankers Conference, The University of North Carolina, Chapel Hill
Sept. 9	Delaware, Rehoboth Beach

Other Organizations

May 6	New Jersey Savings Banks Association, Montclair Golf Club, Montclair, New Jersey
May 6–8	National Safe Deposit Convention, Willard Hotel, Washington, D. C.
May 13–15	Annual Institute of the American Industrial Bankers Association, Hotel Indiana, Fort Wayne, Indiana
May 14–15	Third Mid-Continent Regional Conference, National Association of Bank Auditors and Comptrollers, Palmer House, Chicago, Illinois
May 14–15	Convention of Central Atlantic Region, National Association of Real Estate Boards, Biltmore Hotel, New York, N. Y.
May 24–25	Annual Conference of Insurance Division of the American Management Association, Chalfonte-Haddon Hall, Atlantic City, New Jersey
June 7–9	Annual Conference of the National Office Management Association, Stevens Hotel, Chicago, Illinois
June 21–24	Annual Convention and Credit Congress of the Industry of the National Association of Credit Men, Chicago, Illinois
Sept. 13–15	Annual Convention of the Morris Plan Bankers Association, Broadmoor, Colorado Springs, Colorado
Sept. 13–16	Financial Advertisers Association, Syracuse, New York
Sept. 16–18	Savings Banks Association of Massachusetts, New Ocean House, Swampscott
Sept. 23–25	Annual Conference of National Industrial Advertisers Association, Edgewater Beach Hotel, Chicago, Illinois
Oct. 11–14	Annual Meeting of the National Association of Bank Auditors and Comptrollers, Boston, Massachusetts
Oct. 18–23	Annual Convention, National Association of Real Estate Boards, The William Penn Hotel, Pittsburgh, Pennsylvania
Oct. 20–21	Savings Banks Association of the State of New York, The Greenbrier, White Sulphur Springs, West Virginia
Nov. 5–7	Annual Convention of the Investment Bankers Association of America, Greenbrier Hotel, White Sulphur Springs, West Virginia



LIBERTY FIRE INSURANCE COMPANY
600 SOUTH FOURTH STREET
LOUISVILLE, KY.

April 1, 1937

OFFICE OF
ADOLPH REUTLINGER
PRESIDENT

Mr. Vincent Cullen, President,
National Surety Corporation,
#4 Albany Street,
New York, N. Y.

Dear Mr. Cullen:-

The flood in Louisville is now a thing of the past and I trust that I shall never again live through another such incident.

I don't know whether you can appreciate a situation involving a city of nearly 350,000 people in which for a short period there were no lights, heat, water or police protection and refugees by the thousands that had to be evacuated and evacuated quickly. In such times of disorder unprincipled persons always take advantage of situations and I am sorry to say that Louisville was no exception and was subjected to this nuisance which always occurs when a community is disorganized.

What prompts my writing this letter to you is to compliment you on the service granted our assureds in this emergency. As you know, we had numerous burglary claims of all characters, a great many border line cases from a contractual standpoint, and I wish you personally to know that the National Surety Corporation handled our adjustments promptly and efficiently, your men being here even before the waters had subsided, and that every consideration was given to people in distressful circumstances.

I presume you have received other letters similar to this one but as a member of the oldest and largest organization selling insurance in this territory I wish to add my personal word of thanks to you for the courtesies extended us and our clients.

Very truly yours,

LIBERTY FIRE INSURANCE COMPANY

A. Reutlinger

A. Reutlinger - President.

AR:BH

ADDRESS ALL COMMUNICATIONS TO THE COMPANY—ATTENTION OF THE ABOVE DEPARTMENT

Deserted, water-filled streets. Troops patrolling in boats—inevitably some looting. Then a flood of burglary claims:

But read this→

In Louisville—disaster struck. But every claim is an "emergency" claim to someone. And whether the claim is in the burglary, the forgery, or the Fidelity bonding field, National Surety backs up its carefully chosen agents with the prompt action that builds permanent business friendship.

NATIONAL SURETY CORPORATION

VINCENT CULLEN, PRESIDENT · *New York*

Modernized Trade Acceptances

By H. F. de C. PEREIRA

THE curious phenomenon of booming business and an insufficiency of loans is one which must perturb any banker today. The indices of payrolls and production have approximately doubled since the low point of 1932–1933, while bank loans have been slowly creeping up to a point about 10 per cent above the low. During this period the volume of paper handled by the large finance companies has more than doubled and is now well in excess of the 1929 figure. The large volume of consumer financing is an established fact which the banks must accept. On the other hand, the finance companies, particularly through wholesale operations, the commercial factors and other financing organizations, have been making inroads into fields which the banks have been accustomed to consider their own.

A few banks have entered the assigned account field in an endeavor to recover their proper place in the financing of commerce. This procedure is unsatisfactory. In an attempt to preserve the continuity of pledge that is essential to proper protection, the bank must resort to a number of legal fictions. This involves a tedious and expensive machinery and the protection achieved is never complete. The difficulty of following returns and adjustments is almost insuperable and it is impossible for the bank to protect itself against the return of merchandise on a falling market. Only in rare cases will the borrower willingly consent to the notification of customers. All these difficulties are avoided when a trade acceptance is offered. As a valid negotiable instrument, it is not subject to any of the shortcomings mentioned above and it can be handled at no greater cost than an ordinary promissory note.

THEIR VALUE TO SELLERS IS OBVIOUS

THE virtues of the trade acceptance from the point of view of the merchant need no elaboration here. Instead of an unsubstantial claim which, although theoretically payable within certain terms, may in practice be disputed or extended almost indefinitely, the vendor has a negotiable instrument due on a definite date and at the same time an acknowledgment of the receipt of the merchandise. His collection problems are minimized and his cost of doing business reduced. The value to the buyer is less obvious; but most buyers are also selling on terms which permit the use of trade acceptances and it must be remembered that longer terms will frequently be allowed by the vendor, where he is in a position to raise cash immediately by discounting the trade acceptance.

At present an open market for prime trade acceptances is an impossibility. With interest rates so low and borrowers so scarce, even bankers' acceptances are largely put out of the market by the most modest acceptance commission. This is a situation which will not continue. Some form of inflation, either as the outgrowth of commercial recovery or of collapse followed by the inevitable Government support, lies ahead of us. At such times a large volume of prime trade acceptances would provide the banks with a sound method of financing the increased activity, at the same time providing a self-adjusting liquid reserve based directly on that activity. Moreover, since the ability of the Federal Reserve System to control such a situation depends largely on its open market purchases, and since single name notes are not eligible for purchase in the open market, a large volume of acceptances provides the maximum leverage for effective action.

It is not to be thought, however, that the use of trade acceptances even in present circumstances is limited to the poor risks. As volume increases and the effects of depression losses and obsolescence of plant make themselves felt on working capital, situations are constantly arising for which the use of the trade acceptance is an effective remedy. As an example, there is the case of the seller who finds his bank lines full and the buyer who is himself glad to keep down his borrowings by giving trade acceptances. When the bank is able to consider the combined strength of both parties and is also provided with bona fide evidence of a specific commercial transaction to be financed, credit in the form of discount facilities for trade acceptances can frequently be made available, where ordinary unsecured loans would be unacceptable.

THEY FIND WIDE USE IN OTHER COUNTRIES

IN spite of its value, as indicated by its successful use in most countries of the world and the undisputed fact that in most of these countries a greater volume of business is regularly done on a given amount of capital, the trade acceptance is somewhat in disrepute in this country. This disrepute is due not to its use but to its abuse. All methods of giving credit can be abused and the blame rests equally upon borrower and lender. If balance sheets and operating statements are properly scrutinized, abuse of the trade acceptance is as readily detected as that of any other credit medium.

The shortcomings of the trade acceptance in practice in recent years are not attributable to any inherent defect in the instrument, but in the methods employed in handling it.

The system can only become established when bankers as a group are convinced of its advantages, when they encourage the use of the trade acceptance and offer the preferential rate to which the additional security entitles it. The use of the unsecured note would not be eliminated, but it would become, in most lines of business, a supplementary method of borrowing to cover peak periods when sufficient acceptances would not be available. No doubt a long period of transition will be necessary before any such system can become established. Nevertheless, the banker has in the trade acceptance both a partial remedy for his present lack of business and a sound method of handling what may become in the future an embarrassing excess. To neglect such an instrument because of deficiencies which it is in his own power to correct would be shortsighted indeed.

Interdepartment Expense

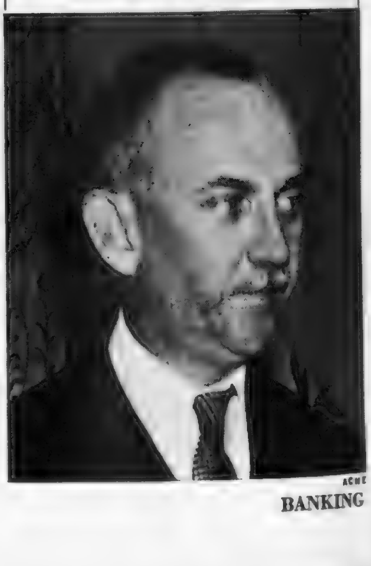
AN oftentimes puzzling question is: Should there be a monthly distribution of overhead and expense incurred by one department or office for another?

A fair rule to follow, according to one authority, is that that out-of-pocket overhead expense which is easily allocable should be distributed to the major income-producing departments and branches monthly.

By the same token expenses incurred by one department for another, if they are measurable by occasional volumetric methods, may be distributed monthly on more or less fixed bases, but where it becomes a rather arbitrary and expensive requirement, it should not be done. The least expensive method for the allocation of all overhead and indirect expenses is to do it annually and in statistical rather than double entry form. Under that procedure only direct out-of-pocket expenses are distributed from day to day or from month to month, and the real net result of an earning department or branch is ascertained by adding to and deducting from primary results all of the factors that properly go into the calculation of true net income.

CONSUMER REACTION

Henry H. Heimann, executive manager, National Association of Credit Men, recently warned that rising prices may bring about buying resistance that will temporarily check the recovery movement



PRACTICAL TESTS OF MACHINES AND METHODS SIMPLIFY POSTING WORK AND EFFECT ECONOMIES IN THE PENNSYLVANIA COMPANY

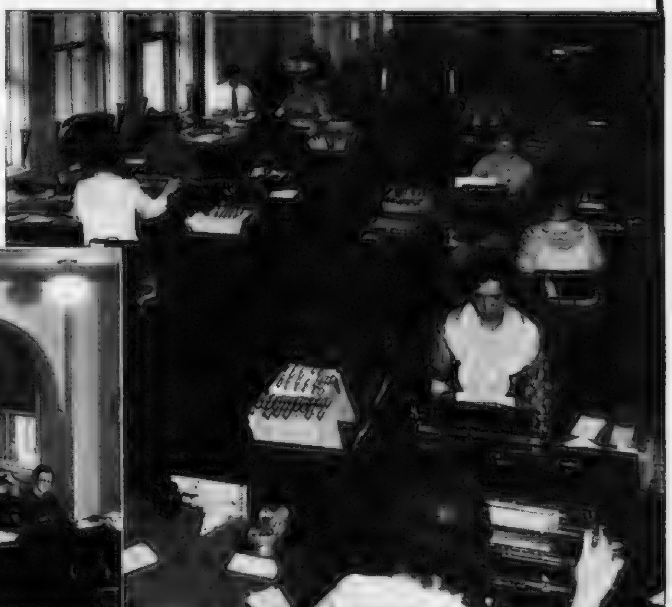
SEEKING improvement in their methods, and production per clerk, and hoping to eliminate, if possible, certain steps of work in their analysis and ledger (checking) sections, The Pennsylvania Company, Philadelphia, Pa., conducted a series of practical tests on new bookkeeping machines and methods. As a result, National Bank-Bookkeeping Machines were installed.

Beside reducing expense in the bookkeeping department, they made additional savings. The adoption of a small ledger sheet, and statement which contained analysis information, eliminated analysis work-sheets and cut their efforts 40% with one less hazard of transfer.

The economies that resulted from the installation of this new system by The Pennsylvania Company might also be duplicated in your bank. Why not talk the matter over with one of our bank representatives?

Or, if you prefer, we will be glad to send you a detailed report describing the improvements made by The Pennsylvania Company.

Send for National's Payroll Plans that provide records which conform with Social Security Legislation.



THE National Cash Register Co.

DAYTON, OHIO

Cash Registers • Typewriting-Bookkeeping Machines • Posting Machines • Bank-Bookkeeping Machines • Check-Writing and Signing Machines • Analysis Machines • Postage Meter Machines • Correct Posture Chairs

"MAYBE IT'S JUST THE FINANCING YOU NEED"

"THAT purchase of Commercial Credit Company short term securities for our portfolio was a good idea. It's a sound set-up they have, isn't it?"

"It certainly is. I'm particularly interested in their open accounts receivable financing. A manufacturer I know has been using it for some time."

"Is that so? What made him try it?"

"He didn't have enough capital...had to find new financing to keep up with his orders. He was just about to take in a partner. It would have cost him a third interest, and he wanted to avoid that."

"That sounds familiar. I know several cases where those same conditions have arisen in the past year. What did your friend do?"

"He investigated Commercial Credit Company financing. They showed him how he could handle 25% more business, save discounts on purchases, and buy his raw materials at low cash prices. He is making a clean-up this year."

"I used to have the idea that there was something risky in that sort of financing. But that report on Commercial Credit Company's policies, methods, management and clients was an eye-opener. That's just the kind of financial service business needs in these days."

"No doubt about it. Some of our wholesalers could use it to advantage. I think I'll have our credit department give them a hint to that effect."

COMMERCIAL CREDIT COMPANY discounted nearly $800,000,000 of open accounts and notes receivable in 1936. A large part of the funds employed came from great corporations, insurance companies and investors with surplus to invest in its capital and long or short term securities. Their investigation satisfied them that Commercial Credit's Receivable financing is soundly conceived, and the Company is capably managed. Manufacturers and wholesalers, desirous of improving their cash position and credit rating, should investigate. All correspondence or consultations are confidential. Write today.

COMMERCIAL CREDIT COMPANY

NEW YORK **CHICAGO** **BALTIMORE** **PORTLAND, ORE.** **SAN FRANCISCO**

Streamlined Title Insurance

AT a recent real estate luncheon the question arose, "How can title service be improved?" The reply, almost unanimously, was, "Speed it up!"

Accepting this as a challenge, we determined to find a "streamlined" title plant and investigate its operating methods. We found it in Camden, New Jersey.

Speaking with the president, we asked, "How quickly can you make a title search?" He replied, "Name any site in or around Camden." We did so from the telephone book and in twelve and one-half minutes we had a complete record of that property from the beginning of recorded title history in the state up to the previous day—every owner, every mortgage, every judgment!

Only the week before, we were told, a Newark realtor had written for a title search and had received it by return mail. So surprised was he that he "long-distanced" the company to find how it was done.

We felt sure that a title search in 12½ minutes would satisfy the most exacting realtor, so we asked the same question, "How is it done?"

EVERY LOT NUMBERED

THE whole secret lies in the maintenance of locality and block index records in addition to the usual name index records. Every built-up area is mapped in large scale and divided into sections with every lot on the map numbered. For instance, the company has a series of large roller maps covering the whole of its home county, Camden. Each map is of a city, township or smaller community, depending upon the real estate development in that section, and every square foot is lettered and numbered.

The site we chose was located on Camden key map, section A, block 12, lot 21. Reference to the file under this classification gave us the whole data down through the years and as of record up to the previous day. Similar quick reference can be made to any lot in the built-up areas of Camden County, and full information is available except in cases where the title is affected by a foreign will and court proceedings outside the county.

Other counties in southern New Jersey are for the most part rural, and with a few exceptions there is not

enough business to make locality and block indexing profitable. However, over a period of 49 years the company has accumulated many thousands of maps and extensive records from many counties and is always in close touch with new developments. When farm land or other large acreage is taken over for residential development, a detailed map of the section is obtained from the developers showing proposed streets, building lots, etc. If likely to be profitable, these are mapped and numbered so that, as the properties are sold, the locality index is ready for notations of title transfers, mortgages and the like.

The company maintains an office force in the state capital to obtain the daily list of all judgments in U. S. district and state supreme courts and to make abstracts of any proceedings in these courts which affect titles in its territory. Also, several employees are permanently located in the Camden County Court House, copying abstracts of deeds, mortgages and judgments. All of these are checked and entered on the company's records the following day so that the company actually has duplicate court records.

HOW THE FILE WAS BUILT

WE asked how these records were first assembled. The company was organized in 1888 with the idea of creating a complete title plant in the shortest time, and so indexing the records that they would be available almost immediately.

Arrangements were made with the Register of Deeds in Camden County for a corps of 50 men, employed by the company, to make abstracts of the court records and list them by name and by locality.

This abstracting was done at the court house daily between the hours of 5 p.m. and 2 a.m., the men being paid on a piece-work basis with a schedule of fines for errors made. Their work was checked by verifiers who were paid a salary, plus the amount of the fines levied for errors discovered by them.

The records were then passed along to a number of girls at the company's offices for indexing by name and by locality, after the maps had been lettered and numbered.

The work on Camden County was completed in about 10 months, during which time no business was advertised for or solicited. What business came its way had to be handled in the old, cumbersome way of examination and search by name through the public records.

A. PATTERSON FIRTH

Smaller Statement Forms

REDUCING the size of our customer's statement and eliminating the perforation formerly considered necessary to detach stubs, has aided materially in reducing our cost and promoting efficiency in our bookkeeping department.

Most perforations or "press" perforations are not brought to the edge of statements top or bottom, since wear and tear of a month's operation would certainly open them. Detaching the stub, therefore, is necessarily a slow operation and too often means an untidy statement.

A paper cutting machine now detaches our stubs. The stub, incidentally, contains all the information necessary to analyze accounts. To overcome the possibility of cutting the wrong end of the statement, a notch was cut at the upper right side of the statement, so that there must be a clear groove before the operator is permitted to cut. Any sheet turned upside down is evident at once. One hundred or more may be cut in one operation.

3 TO 2 TIME ECONOMY

WITH the stub detached, we have a small, neat statement which can be handled quickly and easily. In fact, our clerks now handle three statements in slightly less time than was required for two with perforated stubs. Moreover, the small saving per thousand that results from omitting the perforation will eventually pay for the paper cutter.

As previously mentioned, our statement is small, measuring 7⅛ inches across, and of the usual depth. It contains two check positions, deposit and new balance columns only. With the stub detached, it is an exact duplicate of our ledger-size and tabulations. No footing of balance is necessary at the month end, since all new balances are carried on the statement.

The small statement permits the use of an open-face envelope measuring 8¾ inches, which is sufficient to carry the average individual and small business accounts. In addition to the stationery savings effected through decreasing the size of the envelope and statement, the decreased weight in paper enables us to mail more checks per ounce than formerly. Three to five checks is the average increase. In a large operation like our own, this postage saving is sizable.

FORGERY PROTECTION

THE small envelope has another value, in that it is completely hidden when dropped in private mail boxes, particularly in apartment houses, which as a general rule is not true of the old type. Usually they are longer than the depth of the mail box, which leaves an end exposed to possible theft and subsequent forgeries. Almost any bank operating man can testify to the forgeries that have resulted from stolen mail, involving not only the maker's but the payee's signature as well. We have had a very notable decrease in the number of forgeries through this source since the use of small envelopes.

L. W. HAYES

Assistant Cashier,
Pennsylvania Company for Insurances on Lives and Granting Annuities,
Philadelphia


ING CO.
NO. 410
NEENAH, WIS.
193 7
$100.25
DOLLARS
Secretary
BY
BY
MANUFACTURERS Bank
79-173

The Origin of Treasury Bills

By F. BRADSHAW MAKIN

THAT the British treasury bill now plays a more important rôle in the financial arrangements of the British Government, and indirectly in international finance, is fairly well known, but the actual part played is to many persons in the United States, and in England also, a matter of no little obscurity.

Originally the treasury bill was but an instrument for the borrowing of money on short terms by the government, with the object of enabling them to preserve a balance between current income and current expenditure. Though the object in issuing treasury bills still primarily remains that of raising money on short terms, the instrument of credit so created is now used to a much wider degree in the general sphere of government finance, and in the development of a financial policy having international repercussions. Before proceeding to discuss the part played by treasury bills in the financial policy of the British Government, a brief summary of the history and development of the bills will tend towards a better understanding of present trends and policy.

THE ADVICE OF WALTER BAGEHOT

THE treasury bill first came into existence 60 years ago, in 1877, and credit for its institution must be given to Walter Bagehot who was at that time editor of *The Economist*. The Chancellor of the Exchequer, at the period Sir Stafford Northcote, found himself faced with the problem of providing funds to meet the growing demands being made on the exchequer by education and sanitary authorities. For reasons which are not material, the Chancellor did not wish to increase the permanent debt of the country, and also felt that a further issue of exchequer bills as a floating debt security would not meet with the response he desired, or was considered necessary to satisfy the demands upon him. As outside advice, uninfluenced by officialism, was clearly indicated, the Chancellor took the wise course of acquainting Bagehot with the full facts and asked him for a considered opinion. Bagehot replied in the following manner:—

"The English Treasury has the finest credit in the world, and it must learn to use it to the best advantage. A security resembling as nearly as possible a commercial bill of exchange, that is, a bill issued under discount and falling due at certain intervals, would probably be received with favor by the money market, and would command good terms."

The advice tendered by Bagehot was acted upon without delay, and as a result a floating security of the highest stamp, known as the British treasury bill, was duly issued. The bills were well received by the money market, and the favor with which they were and still are regarded has never been seriously challenged.

The method of issue was that of public tender, the bills being of three months' usance and a face value of £5,000 ($24,300) or £10,000 ($48,600) and the minimum amount of any one tender being £50,000 ($243,000). Tenders could be lodged by banking companies, discount houses, government departments, and certain other approved financial institutions. The issue by tender held the field until 1915 when, owing to the stress of war finance, the Treasury decided to depart from the tender system and to offer bills for sale through the Bank of England at fixed rates of discount for varying usances of 3, 6 and 9 months. Bills issued in this fashion were spoken of as being "on tap" and the rate of discount was termed the "tap" rate.

The war period saw a remarkable growth in the volume of treasury bill borrowings, and, consequently, in the total outstanding. At the commencement of the war the total outstandings amounted to some 15 million sterling ($73,000,000) which increased to almost 100 million sterling ($418,000,000) by the end of December 1914. This growth, large as it appears, was of small dimensions relative to the growth which was to follow, each year bringing about an addition to the total which reached the large sum of 1,200 million sterling ($5,832,000,000). The total outstanding has been very appreciably reduced since 1921, the figure at the end of 1935 being 866 million sterling ($4,209,000,000).

The issue of bills through the "tap" was discontinued during 1921 and the tender system reinstituted, which is arranged as follows: Each Saturday the treasury gives notice that on the following Friday tenders will be received for bills for a given total, to be issued during the week following the Friday on which the tenders are lodged. Every Friday, before 1 p.m., tenders are lodged at the Bank of England, and a little later in the afternoon an official announcement of the allotment is published, giving among other details the average rate of discount on the total allotment.

THE 8-YEAR INTEREST TREND

WHEN the annual total of Government borrowings on the security of treasury bills is considered, the full significance of the low rate of discount is apparent. In 1929 the Government was paying over 5 per cent for money borrowed on treasury bills, whereas it is now paying about ½ per cent. The annual saving is so obvious that further comment is superfluous.

While the Bank of England and the treasury can manipulate the market to a limited degree by means of the weekly allotment, an allotment in excess of maturities denuding the market of funds, they can also influence rates by the simple expedient of raising the treasury bill rate. An example of this type of action was seen in January–February 1931 when gold was leaving England, and Bank of England action was necessary to stop the outflow. Instead of raising the bank rate, which was then 3 per cent, the Bank, working in conjunction with the market, raised the treasury bill rate from 2 per cent to almost 2.9/16 per cent in the short space of 10–14 days. Other market rates responded, and the gold outflow was stopped without the necessity of raising the Bank rate. This is but one small illustration of the manner in which the authorities can utilize treasury bills in the furtherance of the general financial policy which is being pursued.

Income from Auto Loans

THE problem of employing cash resources has become increasingly difficult during recent years, and banking, of necessity, has taken on more and more the aspect of an investment rather than a commercial lending business, observes one authority.

However, as our most important investment field, the Government security market, begins to feel the influx of funds under the Social Security Act, the question of the profitable employment of idle funds will need further careful consideration.

About two years ago, a small national bank in Pennsylvania, serving a residential and farming district, began advertising for automobile loans. It has found them to be a favorable and lucrative source of new business.

The bank negotiates direct with the borrower in every case and does not require a dealer's endorsement. To many this will appear unwise, but, in a small town where everyone is known, the bank feels that these loans are more in the nature of character loans. In a city or larger community the dealer's endorsement is unquestionably necessary to protect the bank against embarrassments and inconveniences should attachment be necessary.

NO LOSS WHATEVER

IN the two-year period, the bank has had no losses of any description, has had no occasion to attach a machine, and has no delinquent accounts. At the present time there is a total of $33,314 outstanding, with an average obligation of $308.46.

In considering applications, the bank specifies that one-third equity in the machine be represented either by trade-in value or in cash. A dependable book of automobile statistics is used for appraisal purposes. Fire, theft and $50-deductible insurance is required.

As with personal loans, the period of financing is determined by the amount of the loan and the income of the borrower, but in no case does it extend beyond 24 months. More than 75 per cent of the loans are for a year.

Loans are discounted at 6 per cent per annum with a small investigation fee, and the security consists of an approved lease form signed by the borrower, with collateral in the form of certificate of title to the machine on which is endorsed the bank's encumbrance.

How to Chart Management

By J. W. MILLER

THE value of graphs in portraying the numerous trends in which bank managements are constantly interested is not generally appreciated. Through their use the managing officials are able to picture the histories of their banks' operations and with this knowledge as a background are able more intelligently to steer the future course of their institutions.

SIMPLE CHARTS WILL DO

FOR example, one may imagine a very simple graph in which are charted the various trends of the different assets and liabilities and the capital accounts of a bank over a period of three years. For better relative comparisons the figures could be reduced to percentages, the total assets representing 100 per cent and the total liabilities and capital accounts representing the same figure.

We will attempt to point out some of the things this bank's management can learn from a study of this graph.

It may clearly reveal that the capital accounts are not accumulating as fast as the deposits. This might be due to lack of earnings or the too liberal payment of dividends, or both. The management might feel that this situation should be remedied and take proper steps in that direction.

A PERENNIAL PROBLEM

PERHAPS the time deposits are gradually becoming an increasing percentage of the total deposits. This means a greater portion of the total deposits is subject to the payment of interest, which will have a very decisive effect on the trend of the net earnings of the bank. The management can nullify these results either through the reduction in the rate of interest paid on these deposits or by the re-alignment of the bank's assets.

If "other demand deposits", which consist of business and individual checking accounts, are gradually losing their importance as the bulk of the deposit total, the bank may have been exerting too much effort to increase its time deposits and the management may decide its policy should be reversed, with greater emphasis placed on the solicitation of more commercial business.

So much for the analysis of that part of the graph which reflects the history of the bank's liabilities and its capital accounts.

In studying the portion of the graph in which the trend of the different classifications of assets is charted we may find many varying movements. The percentage of its funds invested in commercial paper perhaps shows a gradual decrease, while the collateral loan item is following the opposite trend. Real estate loans are absorbing a greater portion of the bank's funds, which may be what this institution desires because of the more than proportionate increase in its time deposits.

The ratio of United States securities to total assets has been constantly increasing, revealing that this institution has been accumulating these assets which yield a very low rate of income, and at prices which are the highest in the history of our country. A greater

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portion of its total assets is becoming subject to market fluctuations and their price stability is dependent on the future trend of interest rates. The ratio of this item to the bank's capital accounts has been constantly increasing, which tells us the solvency of the bank can be threatened by a much smaller drop in the Government bond market.

HOW THE MANAGEMENT INVESTS

THE trend of other securities as compared with total funds invested in securities has probably been downward which, to some extent, offsets the movement in the other direction of United States securities.

The bank is gradually carrying a smaller portion of its funds in "cash and due from banks", which reveals that the management is investing more closely. This action should offset somewhat the larger investment in low yield Government securities. However, by following this closer investment policy the liquidity of the bank is being reduced, unless there has been a corresponding increase in very short term paper in some of the other asset classifications.

MANY USES FOR GRAPHS

IT is not intended that the above represents all the information which can be gained from such a graph, because it can tell many other interesting stories; it is intended merely to show by example some of the possibilities in charting individual bank trends.

Graphs can be used very effectively in charting the different types of bank income and expenses. I have in mind one in which the total gross income is considered 100 per cent and each expense classification and the remaining net profits are shown as percentages of this total. Another very interesting one and one which should prove of value especially at this time would be a drawing of the trend of interest rates received on the various types of earning assets held by the bank. The charting of departmental activity which shows the trend of the volume of business handled by the different departments will prove of value in arranging the personnel.

The use of graphs, like the use of statements of figures, does not directly add to a bank's net profits, but it is a means of bringing more clearly to the managing officials' attention very valuable information, the knowledge of which should enable them to direct more intelligently the activities of their institutions.

Costs and New Business

WE are happily departing in banking from the desire to build up business purely for the sake of volume, states one banker. If banking of the past 15 years has taught us anything that is of nation-wide importance, it is that banks must have a sufficient margin of operating net to assure them continuance not only in times of so-called prosperity, but in times of recession.

There should be close cooperation between the business development arm of the bank and its accounting or cost-determining agency. It is not difficult to determine the average life of accounts of the institution. It is not hard to ascertain the cost of opening an account, and it is not difficult these days for any bank to ascertain unit costs of operation.

These costs, of course, should not be determined purely on the basis of a period of prosperity or a period of depression. They should be established on the basis of a fair utilization of plant and effective operation. If a bank is not operating well or with reasonable economy, adjustment should be made in method, because a bank cannot expect the customer to pay the high costs of expensive and unsatisfactory practice.

However, having determined reasonable costs, before the business development department commits itself to questionable new business it should either consult the cost authority in the bank or it should have been supplied by the latter with simplified methods of applying bank costs to prospective business. Ordinarily the prospective customer can give the bank a pretty good line on the service he expects from the institution, and that is the time to determine whether the customer's relationship with the bank will be mutually satisfactory.

If it appears that the expenses which the bank will incur are likely to be out of line with the income it should reasonably expect from the relationship, it is altogether likely that the customer will agree to make such adjustment as may seem to be desirable in connection with the actual relationship. If new business is handled in this fashion there is very little likelihood of the bank extending its services in directions that are likely to yield only loss.

REPUBLIC STEEL HEAD

R. J. Wysor (below) has been named president of the Republic Steel Corporation, succeeding Tom M. Girdler, who retains his position of board chairman

WIDE WORLD

An Imaginary Bank

To the Editor:

AS a part of the public education committee work of the local chapter of the American Institute of Banking, I made a short talk before a group of seventh and eighth grade pupils. In preparing my talk, I felt that the greatest need was the fundamentals, not the departmentals, of banking. So I proceeded to organize and operate an imaginary bank during my talk, taking in all of the pupils and making them an actual part of the bank.

In starting this imaginary bank, I explained to the students the difference between a state and a national bank, the actual organization of each classification, the examinations and investigations made in the community before the bank is chartered (by the state banking department in the case of a state bank and the national banking department in the case of a national bank), the difference between preferred and common stock, and of the elimination of the double liability feature of bank stock.

First, I took one row of students and made them the stockholders, directors and officers of the bank. The boy in the first chair, I named president of the bank. This, I later found out, was the subject of considerable talk among the boys and girls.

Second, I took the next two rows and made them the depositors of the bank, explaining in detail checking accounts and savings accounts, together with Christmas and vacation clubs. I emphasized the importance to them of making out their own deposit slips, pointing out that it was their own money they were turning over to the bank.

The correct way to write a check was given considerable attention. Each pupil was given a blank check with stub, a checking and savings deposit slip and a savings withdrawal slip.

Third, the last two rows in the room were classified as borrowers and the various forms of loans from open line to mortgage and time payment explained.

Questions were then asked for and the response was indeed gratifying. They asked questions concerning travelers cheques, foreign exchange and clearinghouses and questions on forgeries of both money and checks.

HAROLD D. COTHRELL
Assistant Cashier
Fort Wayne National Bank

Collateral Life Insurance

IN our bank's effort to salvage what it could from charged-off paper, life insurance has been used with pleasing results.

Although we could not obtain collateral on slow loans we found that in numerous instances our customers carried life insurance which offered protection in the event of the borrower's death. In each case an analysis was needed to determine the value of the policy and how we might secure the charged-off loan and satisfy the customer. We found that insurance policies of all forms were in force with apparently no thought given to the cost of the premium or the protection afforded the policyholder.

An examination of some of the policies offered us revealed that while many had cash values others must be cleared of debts. Some borrowers were willing to assign their policies to the bank and continue to pay the premiums; others expected the bank to carry their premiums. In order to determine whether our bank would profit from the acceptance of policies upon which loans had been obtained we had to study each case separately. Such factors as age, income and the type of policy were carefully considered in order to obtain protection for the bank and satisfy the customer.

CUSTOMER-PAID AND BANK-PAID POLICIES

THE policies taken under the plan were divided into two groups: those with premiums paid by the customer, and policies with premiums paid by the bank. On the policies where the customers were financially prepared to continue paying premiums we merely took absolute assignments and credited the customer's note with the cash surrender value of the policy and charged-off the balance of his note. Assume that a man at age 60 has owed the bank a note of $500 for several years and has no security to offer other than a $1,000 ordinary life insurance policy that has a cash value of $100. We would credit his note with the amount of the cash value of the policy and charge the balance or $400 to the undivided profit account. Instead of requesting the cash value of his policy from the insurance company we would set this value up in an account on our general ledger entitled "Cash Surrender Value of Life Insurance Policies." In this manner each time an annual premium was paid on the policy the cash value would increase, thereby making it possible for us to liquidate the balance on his note over a period of years. If the borrower died our note would be paid in full by the insurance company.

Now suppose this borrower whose age is 60 carried an endowment policy of $5,000, had obtained a loan from the insurance company of $500, and was about to drop his policy because the premium plus the interest on his loan had become a burden because of decreased income. In such a case we might suggest changing the policy to an ordinary life form, reducing the face amount to perhaps $2,000, which would cut the premium to an amount he would be able to pay. By changing an endowment policy to an ordinary life form and reducing the amount of insurance, it is possible to lower the premium and pay off a large portion of a policy loan.

On all policies offered us as security on charged-off loans we took absolute assignments, which assured us that our note, together with interest, would some day be paid in full either from the cash value of the policies or upon death of the borrowers.

We did not wish to cash in policies, especially when the

By GEORGE R. SMITH

cash values would not cover the entire indebtedness of our customers. Such a plan would often cause policies to be dropped and would offer us no security to the balance on charged-off paper.

In the latter class of policies, where the bank was required to pay the premiums, a thorough analysis of the terms and conditions of the contracts was essential. The age of the policy played an important part in our analysis. On policies that had been in force for 10 years or more the cash values would increase each year more than the amount of the premiums paid. The return to the bank on premium investments is in most cases a guarantee of 3 per cent, increasing according to the earnings of the insurance company.

Such an investment would yield a return equivalent to many bonds. The most important phase of this plan is the fact that the bank will some day recover from the insurance company not only the amount of a borrower's charged-off note but interest on the note and interest on the premiums paid on each policy. Since the bank cannot collect out of an insurance policy more than a borrower's debt, plus interest, there appears no advantage in carrying a policy for more than the amount of a customer's loan and the estimated interest that will accrue. There is no set rule other than the mortality tables to estimate the amount of insurance sufficient to cover this hazard.

The plan applies only on policies where the bank must pay the premiums. For example, if we accept an ordinary life policy on a man 65 years old who owes us $1,000 (which is charged off) we might reduce his policy of $2,500 to $1,500 if we must pay the premium. If we were dealing with a younger man on the same proposition it might be advisable to carry $2,000, since his life expectancy is greater and more interest may accumulate before the loan is collected in case of death. Of course in a case where the borrower is financially able to pay his premium, excess insurance may be carried if he chooses to do so. Aside from the factors mentioned above the various conditions and clauses contained in life insurance policies should be given consideration before they are accepted to secure charged-off paper.

DOUBLE INDEMNITY COVERAGE

DOUBLE indemnity is in reality accident insurance which is payable in case of death of the insured by accident only. Under the general provisions the insured may obtain for his beneficiary double the value of his policy if his death occurs through an accident, at a premium cost of about $1.50 per year for each $1,000 of insurance. This coverage is often added to a life insurance policy. Under our plan double indemnity would not be required in the policies if the bank paid the premiums. On the policies paid by borrowers this additional protection is optional. We do not exercise any control over these policies except to see that the premiums are paid. The total disability pays indemnity in specific cases when proof is furnished that the injury or sickness is of a permanent nature. However, under the present day policies total disability for a period of three months or more justifies the policyholder in presenting his claim.

Experience has taught us that the total disability clause is desirable on both classes of policies handled by our bank. The fact that we have been relieved from the payment of future premiums on a few policies, and our customers are receiving monthly disability checks has proven the value of this extra protection to us. Although we are glad for our

customers to receive these monthly checks it is possible for the bank to work out a plan with the insured to pay a portion of his disability allowance on the charged-off loan. This income to a policyholder is usually $10 per month for each $1,000 of insurance in force. Another feature of importance in the disability contract is the immediate payment for losses of sight, arms or limbs.

Whether a bank is making a loan secured by a life insurance policy or accepting a policy as collateral to a loan already granted, it is always best to take an absolute assignment on the policy. By such action the bank obtains many privileges not accorded the beneficiary, who can only claim ownership of the death benefit. A partial assignment is not desirable since it gives the bank only a specified portion of the face amount of the policy and usually partial control.

Where an individual is named as beneficiary we have the assignment made to the insured's estate by having both the insured and beneficiary sign the transfer. After this is accomplished the insured executes an absolute assignment to our bank. The assignment is executed in duplicate with the original attached to the insurance policy and the copy retained by the insurance company.

Many forms of assignments are in use and although most forms may be satisfactory to a lending institution we prefer to have the insurance company acknowledge receipt of our assignments on the bottom of our special assignment form. At times a bank may find it necessary to take an assignment on a policy carried by a firm on the life of one of its executives. Before accepting such an assignment the bank should request a corporate acknowledgment supported by a resolution by the board of directors authorizing the assignment.

IMPORTANCE OF SETTLEMENT PROVISIONS

SPECIAL attention should be given to the settlement provision selected by the insured on policies assigned to a bank. Usually the amount of insurance is payable in a lump sum to the beneficiary. The insured may designate in the policy that his insurance be paid in monthly instalments over a period of time during the life of his beneficiary. Under a monthly payment plan the bank might be forced to wait for a number of years after the death of a borrower before his note would be liquidated in monthly instalments. As a precaution the bank should read carefully each policy and have the contract changed to comply with its requirements.

In case a borrower fails to pay his premium on a policy assigned to a bank, the bank may either pay the premium and add this amount to his loan or make a settlement with the insurance company to recover the loan and interest. The bank may surrender the policy and receive the cash surrender value, accept a paid-up policy for more than the amount of the cash value, or accept extended insurance for a stated number of years. Under the first option the bank would of course be investing additional funds in premiums but in the second and third option no more premiums would have to be paid on the policy. To receive a paid-up policy in this case it is of course assumed that the policy has been in force a number of years. Paid-up insurance could only be collected in case of death of the policyholder.

Any bank wishing to recover charged-off notes will find that by making personal contacts with its customers many of them will be willing to assign policies to the bank under the plan outlined here. Although our bank showed on its statement of December 31, 1936, "Cash Surrender Value of Life Insurance Policies, $47,963.63", this amount represents only the cash value of the policies and does not indicate what amount we will recover over a period of time from death claims.

The Use of Written Instructions

"ARE instruction manuals useful in bank operation?" one banker was asked. The question of proper instruction in connection with bank operation, he pointed out, is a matter that cannot be avoided. As between the bank which operates purely on the basis of verbal instructions, in which men are merely told what to do and what is expected of them, and the bank which prolifically charts its organization and writes instructions on every job, there may be little choice. The former is not using one of the essentials of good management at all, and the latter is bending over backwards in paper work to the extent that practice is encumbered.

It will depend upon the size of the bank and the complexity of its business, but in general there are several types of rather essential instructions: those special instructions which are received from customers relating to their particular service requirements and which should be kept before all who administer to the customers' needs; and those of a policy and procedure nature covering the operating routine of the bank. One might add a third, namely, those relating to the steps or sequences of operation in various jobs, but if a bank undertakes to write instruction cards it must be careful, because methods will be or should be changing frequently.

Some jobs of course are almost too routine in nature to require that the steps involved in them be set forth on paper, and where routine work is handled in volume it is probably more desirable for skilled operators to instruct the rest rather than undertake to write up the details of the job. Procedure manuals descriptive of the work of divisions or departments have their virtue provided they are not too voluminous nor too illustrative, because of the frequency of change in departmental practice and method.

The main danger, once the preparation of instructions in writing is undertaken, is that the maintenance requirement is overlooked. Once undertaken, there should be insistence upon correction and revision of obsolete matters, adequate distribution of all matters so that all concerned may be informed, and follow-up to insure that the procedures are followed.

FOR INVESTORS

Securities and Exchange Commissioner William O. Douglas, advocating creation of a permanent group to hear investors' grievances, states that corporate management has practically usurped the rights of the great body of investors

HARRIS & EWING

Shaking Hands by Letter

NO present-day banking conference is complete without the inclusion of public relations as a subject for discussion, and yet how many banks are doing anything about it? Probably the subject is usually presented in such comprehensive form that most bankers are a little afraid to tackle it.

However, many effective ideas for developing and improving a bank's public relations can be adopted by the smallest of banks with very little investment of either time or money. For instance, much good will can be generated by the judicious use of form letters.

Many banks already employ this means of acknowledging new and reopened accounts, and regretting the loss of closed accounts, but how many mail a letter of welcome to the new bank stockholder?

Seldom is bank stock purchased like commercial stock. Almost invariably an investment in bank stock is made by a customer of the bank at the suggestion of an officer or director. Therefore, the new stockholder has more than just a "dividend earning" interest in his investment, and through a letter of welcome and suggestion from the president he can be encouraged to seek opportunities for influencing new business to the bank.

Following are other possibilities for the use of form letters:

New Residents—Unless one has had the experience, it is impossible to realize the loneliness attending location in a strange city, town or district. At such a time, a gesture of friendship in the form of a letter from the local bank creates an impression of lasting value and one that may be remarkably far-reaching in its effect.

Marriages—A letter of congratulation and good wishes to newly-weds is a successful creator of good will. If you have a trust department, incorporate in the letter a mention of increased responsibilities and the necessity for a will, for it is the psychological time to broach such a matter. Deputize a responsible stenographer to watch the local papers for wedding announcements, and have all your employees pass along to her any such news coming to their attention.

Births—The foregoing also applies to the parents of newly-born children. However, in this case, do not take the names from the newspapers, but make

arrangements with friendly physicians to permit you to phone them, say, once a week for a list of births which they have attended.

DEATHS—A letter of condolence to a customer of the bank or to any well known person in town is always appreciated. Make it brief, and with an offer of help if circumstances warrant. A letter of condolence is perhaps the most difficult of all letters to write and is invariably required in a hurry. For this reason, it is well to have on file the skeleton of such a letter with suitable phrases.

PROMOTIONS AND NEW APPOINTMENTS—Congratulations in such cases are always in order and appreciated.

SCHOOL TEACHERS—At the beginning of the new school year, send a letter of welcome to all new teachers, with a suggestion that they use your services; also send a letter to all other teachers suggesting that they do the same or that they continue to do so, as the case may be. Your mailing list can be obtained from the school authorities prior to the school opening. Where possible, mail letters to the home address.

SCHOOL GRADUATES—A congratulatory letter, personally signed by your president and addressed to each college or high school graduate, is an excellent good will builder and may be the source of much new business during future years. It is not advisable to use an elaborate graduate record book in this regard, as this idea has been overworked to the point where graduates sometimes receive three and four such books from different commercial sources. Where graduating classes are exceptionally large, it may be that congratulations can be extended through the medium of the newspaper, using large space and reproducing a facsimile of your president's signature.

SUBSTANTIAL COMMERCIAL CUSTOMERS—It is a good idea to send a letter of greeting to your better-class commercial customers on the first, fifth or tenth anniversary of the opening of their accounts with you. Do not use this idea in too many cases or too frequently. Have a stenographer record the anniversary dates of likely accounts.

With a little thought, many other opportunities for the effective use of form letters will present themselves. Put the work in the hands of an employee who is interested in it and who appreciates its value, and you have the nucleus of a public relations department. You can shake hands by letter with a minimum of time and expense, and with maximum benefits to your institution.

—A. P. F.

A CHOICE TO BE MADE

Harold W. Dodds, president of Princeton University, recently asked a New York audience whether the Government shall "be merely the great adjuster of conflicting interests under popular control . . . or shall it become an omnipotent, great father to whom we shall look for food and clothing and who shall tell us when to work and when to play?"

HARRIS & EWING

Notes Paid by Renewal

A CASE arose recently which evidenced the importance of the wording on rubber stamps. In this particular instance it had to do with the habit so prevalent in banks of marking notes "Paid by Renewal" when they have been so paid. Because of this case it would seem that any slight advantage that might accrue from this wording on the note is more than offset by its disadvantages. As a matter of fact, the borrower receives such a note. It is in his possession and not in the bank's possession. He could tear the note up or do anything he liked with it.

In this particular instance an individual endorsed a note which was being renewed at the bank by the borrower, the bank having insisted on an endorsement before renewing the note. When the note was not paid at maturity the bank made demand on the endorser for payment. The endorser set up the defense that his signature had been fraudulently received and attempted to go back to the original note, which did not have his endorsement. Before the case came to court, however, the endorser's attorney found out that the bank did not stamp their notes "Paid by Renewal" but that the old note had been stamped "Paid". He instructed his client that he had no defense.

If, however, this note had been marked "Paid by Renewal" the bank would have had no redress, as the endorser could have come back to the original note. Stamping notes "Paid" makes each note a new contract, and in this case it prevented the endorser from claiming that he was not a party to the original contract. This well emphasizes the necessity for careful consideration of all wording of rubber stamps and, in this particular case, the value of making each note a new contract.

In connection with endorsed notes it has also been decided time and again that unless a demand note is protested within a reasonable time, which has been construed to be 60 to 90 days, the endorser or endorsers are automatically released. The bank, therefore, would have no recourse under such circumstances. In order to avoid this contingency it would seem that the endorser should sign directly under some wording such as the following:

> "For value received I/We hereby guaranty payment of the within note and waive demand and notice of protest on same when due and on any and all renewals or extensions thereof."

The reason for this is that the bank could not ordinarily protest a demand note within 60 to 90 days of the date it was given, which would leave it facing a loss if it had to come back to the endorsers. This situation would be avoided by some such wording as that given above.

A case has recently been decided by the Court of Appeals of the State of New York, the state's highest court, releasing the endorser from liability after six years under the statute of limitations. The endorser had signed under the endorsement shown above, except that it did not include the words "any and all renewals or extensions thereof". The maker had made a number of payments on account during the six years, and the last payment made on account was held by the court to have been, in legal effect, a new contract between the bank and the maker.

E. S. W.

F.H.A. Mortgage

GOVERNMENT insurance of debentures issued in exchange for mortgages insured under the National Housing Act has been extended until July 1, 1939. Lending institutions approved under Title II of the Act may now make plans to increase their holdings of insured mortgages with assurance that all loans placed upon the books before July 1, 1939, are fully guaranteed as to principal and interest by the United States.

Bankers who have already had several years of experience in servicing F.H.A. insured mortgage loans know the value of a dependable accounting record. To large institutions with efficient mortgage departments F.H.A. Title II loans do not represent a problem. Also such institutions can well afford to purchase complete systems and special machines for accounting due to the volume of loans obtainable and the increased revenue that will accrue from this source.

The problem of accounting in many smaller institutions has been more difficult because no accurate estimate could be made of the number of loans that might be obtained. Statistics are available in large cities showing the need for houses and the average rental that is received from a large number of tenants. In the smaller cities and communities personal contacts may build up a volume of mortgage loans when a definite need exists.

THE BANK NEEDS COMPLETE RECORDS

REGARDLESS of the size of the bank and the number of loans that must be serviced, it is essential that a complete record be maintained. It has been a general practice with some small institutions to enter monthly deposits on trust accounts with no other record to show the amount accumulated for each debt included in the accounts. For example, if the hazard insurance premium became due it was necessary that the monthly payment for insurance be multiplied by the number of payments made on the loan to determine the amount that had been collected for this debt. The same calculations would have to be made for taxes under such a system. The danger of operating without adequate records is in the fact that a lending institution may allow some debt against the property to mount to a figure that a borrower would be unable to pay in one month.

By increasing the monthly instalment on an F.H.A. loan and collecting 1/12 of the debt each month, the lending institution will make it possible for the mortgagor to liquidate his debt without hardship. Adjustments on F.H.A. loans should be made as soon as the lending institution discovers that the amount of the monthly payment of a borrower is not sufficient to take care of obligations due at a future date. For example, if the taxes on a property are increased in 1937 above the amount paid for taxes in 1936, the lending institution should immediately adjust the monthly instalment of the borrower in order to accumulate the amount needed to discharge the debt when it is due.

The "F.H.A. Insured Real Estate Mortgage Record" is a stock form which may be purchased from most stationery firms. By using a real estate mortgage record it is possible for the lending institution to determine at a glance the amount of funds that have been collected and are held in trust for each debt that will be due against the mortgaged property. Space is provided on the form for mortgage insurance, taxes, hazard insurance, service charge, interest and principal payments. A description of the property, tax payments and insurance information is also carried on the book. Using a

real estate mortgage record it is possible for the lending institution to take off a proof of the trust accounts monthly. An audit of the book is accomplished by simply totaling the columns to see if they balance with the amount of the monthly instalment of each borrower.

The total of all balances on the mortgage record for each loan must equal the trust account balance as shown on the ledger for that account. A trust account should be opened for each F.H.A. loan customer. Deposits are made monthly to these accounts covering hazard insurance, taxes and mortgage insurance. Obligations against the properties are paid by checks against the accounts signed by an officer of the bank. Any standard form ledger sheet used for individual accounts will be found satisfactory for use on trust accounts.

The F.H.A. mortgage note does not provide ruled space for crediting principal payments and it is for this reason that some instalment record is needed. It is now possible for banks to purchase an envelope with numbered ruled columns for crediting principal payments over a period of 20 years. The envelope not only carries the instalment record of a loan but is designed to hold all papers used in connection with an F.H.A. loan. The envelopes are too large to fit a standard size note case but may be kept in a steel document file inside of a bank vault.

A tickler or card may be filed in the note case showing the amount of the monthly payment of a loan and the amount to be credited to the trust account. All F.H.A. loan payments become due and payable on the first of each month and, if the loan officer will make out deposit tickets with a memorandum made of the break-down of the monthly instalment before the payments are due, much time will be saved on the first of the month in entering credits.

For example the information from the amortization schedule and application might be copied on a memorandum sheet about the middle of the month in this manner:

NO. 63985 F.H.A. No. 01-053-000XXX

John J. Jones	Credit principal		$11.19
	Credit interest		19.17
	Service charge		1.89
			$32.25
Deposit ticket to trust account:			
John J. Jones F.H.A.			
Taxes		$4.17	
Hazard insurance		2.60	
Mortgage insurance		1.92	
		$8.69	8.69
Total monthly instalment:			$40.94

At the close of a day's business it is necessary to place the principal credit on the instalment envelope, but no other papers are handled. In addition to the forms described above the lending institution should have some systematic method for keeping up with hazard insurance premiums on policies protecting insured mortgage loans. Full insurance coverage should be obtained with the three-fourths value clause eliminated.

It is not necessary that a small institution purchase expensive records in order to handle insured mortgage loans. The purchase of a few essential forms to be used with records already on hand will be found practical for a small mortgage department in servicing the loans. The initial service charge received on a few loans will compensate for the few forms needed.

G. R. S.

Brief, Simple Reports

IN most banks of some size and activity there is a tendency for reports —daily, monthly, or otherwise—to become voluminous and to lose their usefulness, if indeed they ever had any. It is therefore necessary that some agency of the bank, say the comptroller or auditor and the cashier, constantly appraise the effectiveness of internal reports and the economy with which they are prepared; and with regard to reports to the Government or bank supervising authority, the agency should be constantly concerned not only with their accuracy, but with expedition and simplicity in preparation. Reports concerning the bank made to outside authority properly lie within the province of the control agency because they usually reflect the results of accounting in some form.

A good bit of money can be wasted on the unnecessary preparation of figures. Brevity should always be aimed at. Senior officials and directors are not usually interested in detail; they are more concerned with results. For example, in lieu of a detailed presentation monthly of earnings and expenses in comparative form it may better suit the official and operating mind to have a brief and prompt statement at the end of each month showing net change in the undivided profits and important reserves compared with the previous month or with the corresponding month of the previous year, with an explanation showing in high-spot fashion the reasons for the spread in pickup or reduction, as compared with a similar previous period.

Reports in this respect are like memoranda, the fact usually being that after dictation of the story on some matter, condensation is easily possible, and it results in a clearer picture.

Staff Rotation

FOR purposes of both staff improvement and control it is desirable that there be as much rotation of clerical and official staff as is consistent with improving service, states one authority. Often a man is regarded as a specialist only within a given field of operations or control because he has done so well on one job that it is regarded as undesirable to move him.

This attitude may not be fair either to the individual or to the bank, because it does not tend to train the staff so that in emergencies jobs may be promptly filled—which is the bank element in the picture—nor does it offer the individual sufficient opportunity. Rotation, of course, also tends to make men more cooperative and respectful of each other's jobs.

As to suggested areas of rotation, within the field of checking accounts there is the necessity of rotating ledger clerks and statement operators, both within offices and between offices where branches are operative. There should be similar rotation of compound interest tellers, and of receiving and paying tellers. The same applies to loan and note tellers.

In the official field there is the desirability of rotating officials within and between the several fields of operation, credit, and accounting control. It is not uncommon, but it is also not desirable, that a credit man should know nothing of operations, and it is not beneficial to a bank to have its examining authorities ignorant of credit requirements.

Notary Fees

In most banks, since the duties of a notary require very little time, one of the regular employees usually does that work. Frequently the bank pays for the seal and other costs and retains the notary fees, which it includes among its "other income". It has either a written or verbal agreement with the notary to that effect.

Neither of those agreements is any good in a court of law. This has been decided in a number of different cases. Notary fees are statutory and cannot be assigned in advance of their collection. After many years the notary can sue for all fees the bank has collected and can still retain the salary he has been paid.

In one particular case the employee left or was discharged from the employ of the bank and then sued for the notary fees collected over a 15-year period, which amounted to a considerable sum of money. Even though he had signed an agreement with the bank, the courts decided in his favor. The bank had paid income taxes on these fees and had increased its undivided profits thereby, when actually what it was doing was increasing an undisclosed liability.

Of course, it is a fact that a notary must be a real person. No artificial person, either a bank or any other corporate entity can perform such duties.

The various decisions apply not only in cases where the bank retains all, but also where it retains only part, of the fees of a notary. In cases where a bank has followed this practice in the past, it would seem to be advisable to take an assignment from the employee for all notary fees previously collected by him. The point is that a notary can assign money he has collected because it has then become his, but he cannot assign statutory fees in advance.

Perhaps the better way, though, is to make an arrangement with a notary whereby he retains his own fees and the bank guarantees him a certain stipulated salary per month or per year, making up the difference between the fees collected and the guaranteed amount. The difference between these two figures would be the amount he was being paid for the other duties which he was performing.

E. S. W.

UTILITY PROSPECTS

Thomas N. McCarter, president, Public Service Corporation of New Jersey, recently told stockholders that unless "we are up against a wave of radicalism which would swamp all of us, there is no danger of public ownership or competition from Federal sources."

POTTER

Effective Trust Mailing Lists

RECOGNIZED authorities agree that the successful use of direct-by-mail advertising depends upon what is mailed and to whom it is addressed—with the latter quite as important as the former. The most telling message addressed to a person not likely to be interested is like seed scattered to the wind.

Trust services obviously will appeal only to the minority group of persons of property, and for this reason the use of direct-mail literature is the most productive of business per advertising dollar expended.

Assuming, then, that a comprehensive series of messages has been decided upon, let us consider the question of how best to compile an effective mailing list.

The nucleus of such a list can be formed from the bank's own records. Substantial commercial customers with average balances of $1,000 or more are unquestionably trust prospects. Also, officers of corporations, firms, partnerships and associations with substantial accounts should be included.

Large savings account depositors are good prospects, including many of those who closed or reduced their accounts by lump-sum withdrawals during depression years. Safe deposit box renters should be listed, except those in the smaller rental classes who are known not to be trust prospects.

Following are other sources from which to augment the list:

Investment buyers.

All persons who have at any time shown or expressed interest in trust services.

Friends of officers, and persons suggested by officers and senior employees.

All directors and the names of persons suggested by them. Approach each director personally and ask for his cooperation in this regard. A circular letter to them or a wholesale request at a board meeting will accomplish nothing.

All influential bank stockholders.

Executives and directors of local industrial and commercial enterprises. Do not omit executives' names because the firm or corporation account happens to be with another bank. In many cases, executives prefer not to disclose their personal affairs to their firms' bankers.

All professional men—doctors, dentists, osteopaths, etc.

All members of the legal profession. A friendly letter, introducing the series of messages and emphasizing a desire to cooperate with attorneys will be particularly effective in obtaining their good will.

Life insurance underwriters. Their cooperation is valuable in influencing trust business.

All clergymen and vestrymen. The clergyman's influence in the community is of real value.

Newspaper proprietors and editors.

Leading merchants, storekeepers, members of trade associations and clubs, where known to be wealthy or influential.

Other names will suggest themselves from time to time from many different sources. Watch the society columns for travelers, bridegrooms and other persons who are logical trust prospects. Add the names of substantial beneficiaries under wills where the estate is being handled by an individual executor. Immediately erase from the list the names of prospects who have died.

Always remember that a mailing list

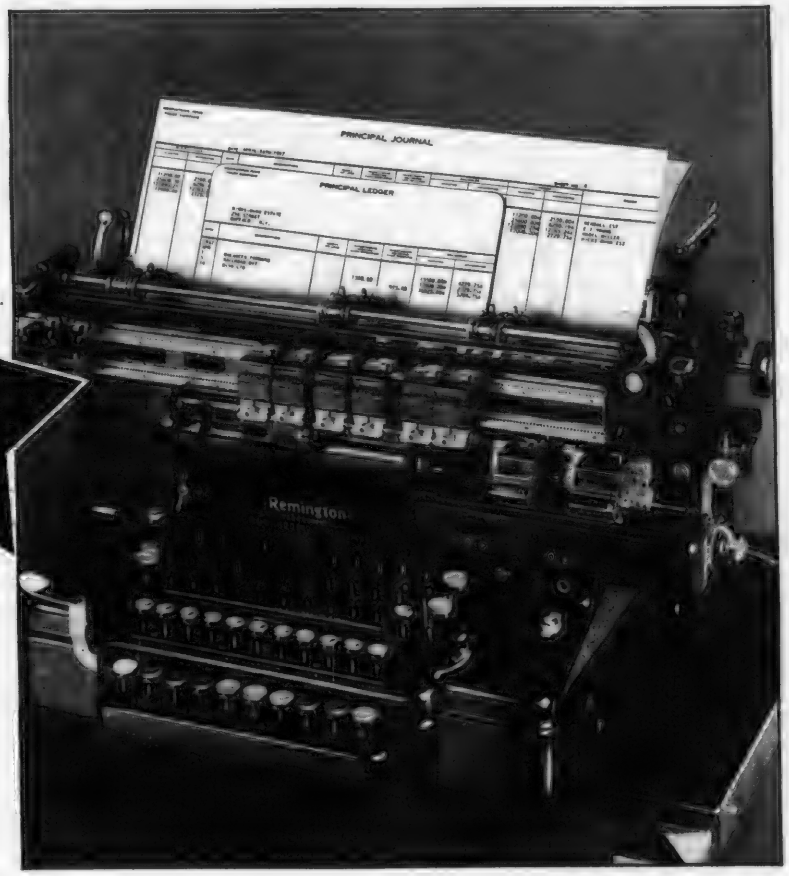
(CONTINUED ON PAGE 88)

BRINGS *Triple Savings* TO TRUST DEPARTMENTS

1 CLOSER DAILY CONTROL

2 QUICK PROOF ACCURACY

3 ALL RECORDS NEAT AND LEGIBLE



WOULD you like the economy and control that is only secured by posting the following five records at one time in one operation:

1. Principal Statements (Investments and Cash)
2. Principal Ledger (Investments and Cash)
3. Investments by Trusts
4. Investments by Security
5. Principal Journal

Then join the progressive trust departments all over the country, who are using the Remington Rand "85" Electrified Accounting Machine.

It posts the income cash statement, income cash ledger, and income cash journal in one operation. Balances of each account and controls are automatically established daily. The "85" prepares in less time with greater neatness, tickets for all transactions for trust records, including auditors, trust tellers and vault controls.

APPLIES TO PEN-POSTED PROCEDURE

If your trust department records are posted by hand, the Remington Rand "85" can replace your present system, without changing your established accounting procedure. You can keep the same records in the same routine. Only the "85" will help you get them out faster, with printed neatness on every form. In addition, you have closer daily control over each estate and the entire department's activities.

HELPS SMALLER BANKS IN 5 DEPARTMENTS

Because of its flexibility, this electrified accounting machine, can also be used to handle loan and discount records, collections, transit letters and general ledger. Thus smaller banks use the Remington Rand "85" to speed up their accounting in five departments, without holding up the work of any department.

The Remington Rand "85" is the *only single* machine that can give you *all* these features at any price.

1. Complete electrification of *all* alphabet and numeral keys, and of carriage.
2. Complete flexibility of registers, providing extra accumulations without rebuilding or replacing machine. Additional registers limited only by length of carriage.
3. All registers visible for columnar accumulation and cross-computation. All registers equipped with direct subtraction, providing contra-entries within specific column, and instant correction of errors.
4. Complete automatic tabulation from column to column.
5. Complete visibility of writing line, permitting easy checking of every entry.
6. Automatic line proof of each individual entry provides instant audit.
7. Independent control of each related form to be prepared simultaneously.
8. Uniform legibility of all records.
9. Made by Remington Rand Inc., Buffalo, N. Y., the only single manufacturer who can supply complete trust accounting systems and assume complete responsibility.

OK.. it's from **Remington Rand**

MANUFACTURERS OF ALL TYPES OF OFFICE MACHINES AND SYSTEMS EQUIPMENT, PROVIDING COMPLETE INSTALLATION AND FULL RESPONSIBILITY.

(CONTINUED FROM PAGE 86)

will never be complete and never wholly accurate. It requires constant attention to keep it effective, and its productiveness depends upon its accuracy.

Submit a copy of the list to the local postoffice every six months. The postmaster will check any mailing list for inaccuracies in initials, spelling and the address.

Keep in mind that maximum success from direct-mail advertising depends upon what you mail, to whom you mail it, and the regularity with which it is mailed. —A. P. F.

Making the Best Use of Mistakes

THERE is an old saying that runs to the effect that inasmuch as all of us are human and make mistakes, no man should be condemned for making an error but that the man is dull who makes the same error twice. This, like every other generalization, on analysis is open to attack, but it has a measure of truth in it. However, whenever serious error occurs, it is essential that the reason for its occurrence be ascertained.

While the fault may seem to lie with a certain member of the staff, it may have been due to inadequacy of direction or instructions. He may not have been properly guided on the job if he is a new man, or he may not have been properly advised as an older member of the staff. In any case, before discipline is meted out, if indeed it proves to be necessary, a complete investigation of the matter should be made by the proper authority, which often brings to light the fact that no one person has been responsible for either a bad condition or an error of consequence.

The procedure may have been unsound. It is unfair, for example, to expect one man to complete an important transaction without being checked by another. Most bank transactions are concerned with customers' property and this requires in most cases that responsibility never be left entirely to one person on important transactions, nor, on the other hand, must improper reliance be placed on the verifier. The man who checks another is an inspector and not an error adjuster, and that should be clearly brought out by the management in its instructions.

Apart from errors in transactions there is the question of impropriety in conduct. The matter of discipline or adjustment, however, in such cases, is similar. The facts should be ascertained, the cause determined, and such guidance as may be properly extended should be given, particularly upon first occurrence.

STAFF MEETINGS HELP

OCCASIONAL or periodic staff meetings of the department, the division, or the entire staff—depending upon the size of the bank—are desirable for the purpose of discussion of errors made. If the matter is approached properly, with the aim always of avoiding recurrence and with the objective of benefit to the entire staff, there is little likelihood of reflection upon the individual who may have been in the main responsible; and disclosure of names involved can often be entirely avoided.

Discussions of this kind will often bring out any requirements of adjustment of practice, procedure, instructions and responsibility, to the end that all will benefit. Such meetings make for a good bit of intimacy in discussion and they will contribute to that essential element so frequently lacking in all operation—banking or otherwise—namely, cooperation. —A. K. S.

THE BEST INVESTMENT IS THE ENRICHMENT OF HOME LIFE

No wonder they're saying...

From kitchen to basement, modernization of home appliances is making life richer and happier for hundreds of thousands of Americans who think of their homes *first*. And they know that modernizing with Norge Home Appliances adds not only to their enjoyment of life, but to the actual value of their homes as well.

Norge products are designed to modernize not only for this year, but for the years to come. They are in every sense *investments*. In pace-setting value as well as in style and performance *Again Norge Leads!* See the Norge before you buy!

NORGE DIVISION *Borg-Warner Corporation*
606-670 E. Woodbridge St., Detroit, Mich.

NORGE

ROLLATOR REFRIGERATION (Domestic and Commercial) • **GAS AND ELECTRIC RANGES** • **WASHERS AND IRONERS** • **WHIRLATOR OIL BURNERS** • **GAS BURNERS** • **FINE-AIR FURNACES** • **COAL STOKERS** • **AIR CONDITIONING** • **CIRCULATOR ROOM HEATERS**

AP-6

The Future of Bank Income

ONE banker, when asked what he considered the future of bank income, commented on a number of the factors involved.

There are signs, he said, of a slight stiffening of loan rates, and it is highly desirable that there should be, because if banks are lending or investing their demand deposit funds at 1½ per cent they are not paying for the cost of maintenance of deposits, bearing in mind in this connection that reserve requirements prevent investing all of the deposits; and if banks incur losses at that 1½ per cent rate they are not nearly breaking even, because costs exclusive of losses in banking by and large over the country are about $1.50 per $100 per year, the $1.50 including of course all expenses involved in the acquisition of accounts and activity costs during their maintenance.

Banks with small total deposits and high activity will have a much higher cost than 1½ per cent; banks with large accounts and less activity will have less, but 1½ is a fair average. To the extent that service charges are exacted on deposit accounts there is some additional income over the lending rate, but service charges are usually confined to small accounts, and the latter do not comprise in total a large proportion of deposits. However, the total of loans is increasing, which means that some unutilized funds are being placed; and there is the increasing rate tendency, which should grow, owing to recent stiffening of reserve requirements.

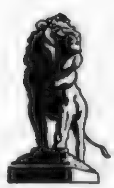
SMALL LOAN SATURATION?

THE small loan business has been a source of at least desirable supplementary income to banks in the absence of commercial or secured loan demand, but whether many more banks can enter the field without jeopardizing the income which is being obtained by those now operating in it is a question.

Then the matter of better housing, which has been so long in developing, should give rise to good real estate loans. With the safeguards that the experience of the past seven or eight years has found to be essential to that type of loan, there is no reason why it shouldn't be a source of rather notable increasing income for banks.

Consumer credit is becoming increasingly a field in which banks find it desirable to participate because the business is safe, it's here to stay, and it is essentially banking, provided the financing is concerned with consumer items of general demand. That business should be a source of further income for those banks which desire to engage in it.

Additional income from trust business is likely to come from two directions, namely, an adjustment upward of the fees on small trusts, because the expense of handling them is relatively greater than that of the larger trusts, and fees at present are generally based upon the size of the trust and its income. There is probably no better reason for handling small trusts at a loss than there is for handling small checking accounts with less than zero income. Another source of additional income from trusts is the rising value of estates in general, with the return of better conditions. Equities are rising in value and that should mean additional, and some larger, business in trust departments than that which has



been obtained over the last half dozen years. The continuance also of activity in security markets is beneficial for those banks having stock transfer and registration functions.

The likelihood of better future net income from the security portfolios of banks is somewhat confusing. It will vary with the banks. Banks generally have benefited during the last four years from the rising market value of their portfolios, and have thus been helped by profits from sale or redemption. That period, however, would appear to be pretty well over, because from now on, with a fair likelihood of stiffening money rates, we may expect a decrease in the market value of bonds which carry a fixed income. There is therefore the possibility of losses upon sale or redemption offsetting the profits previously obtained. This should, however, be concurrent with some increasing interest income on the portfolio because of the re-investment of funds at a higher rate. That additional income, however, is dependent pretty largely upon the issuance of new and desirable corporate bonds and the funding of short term Government paper which now carries a very nominal rate.

FOREIGN TRADE IS IMPROVING

FOR those banks which have foreign departments there should be some improvement in net income as the result of the efforts being made by the Government to stimulate foreign trade. It is having an effect, and the improvement should continue, barring consequential war, the effects of which no one can foretell, because it is fair to assume that any war financing effort will not be in accordance with the pattern of the last one.

The extension of service charges in the domestic bank field, apart from foreign and fiduciary relationships, will add somewhat to income of banks if they continue to exact charges from that business which is not now paying its way, though a good bit of progress has been made in that direction, and it is therefore unlikely that very much additional income can be expected from that source.

The investment portfolio service rendered by banks does not appear to be a notable source of additional income, because there are many corporations and agencies in the field which are giving that service. While it may grow greatly in future, the prospects do not appear particularly bright for much net income from it, in view of the volume and variety of service at present rendered in that direction, and the fact that it costs a good bit to render that service properly. Therefore, until clients are convinced of the necessity of paying what it is worth, the net from it is likely to be small.

Recoveries on previously adjusted assets will continue for some time to come, though the peak has probably passed, and being non-recurring in nature should probably be ignored in the consideration of future additional income for banks.

GOOD SAFE DEPOSIT PROSPECTS

WITH the recovery of investment tendency on the part of the investing public, there should be increasing income for those banks which have safe deposit facilities, the net income of which during the acute depression period was modest, indeed, where there was any at all.

All in all, the picture is brighter than it has been for some years, this banker finds, because banks are getting at last into a position where they can place their funds; they are placing them at a little better rate—which means that it is not exclusively a buyers' market; there is no immediate likelihood of greatly increased bank expenses; nor is there evidence that banks are likely to sustain the losses that they did five or six years ago.

This Month's Authors

DR. HAROLD STONIER (200 Bank Research Projects, p. 15) is Educational Director, American Bankers Association, and Director of the Graduate School of Banking. W. A. MCDONNELL (What Arkansas Is Doing, p. 21) is executive vice-president of The Commercial National Bank, Little Rock. D. M. FLEWELLIN (A New Epoch in Power Farming, p. 22) is president of the Farmers & Traders State Bank, Shabbona, Illinois.

SIR JOHN AIRD (Remember, p. 23), dean of Canadian banking, retired in January of this year from the presidency of the Canadian Bank of Commerce. He entered the bank's service in 1878 as a stenographer and became president in 1926. Knighthood was bestowed on him in 1917 in recognition of services in connection with wartime financing.

E. S. WOOLLEY (Budget the Bond Account, p. 24) is a contributor of articles on practical banking problems. NORMAN CRUMP (The Armament Fillip to Inflation, p. 26) holds the post of banking editor of *The Economist*, London. GEORGE E. ANDERSON (Defense Comes High, p. 27) is a Washington journalist.

B. R. CANFIELD (Consider the Borrower's Adplan, p. 28) has been for several years director of the sales and advertising division of the Babson Institute. J. H. SIMPSON (Counter Types, p. 29) is a Canadian banker whose business headquarters is in Seattle.

EDWARD N. HAY (Payroll Control, p. 30) holds the position of personnel officer in The Pennsylvania Company for Insurances on Lives and Granting Annuities, Philadelphia. E. H. COLLINS (How Factors Work, p. 32), a New York journalist, supplements his April article.

H. F. DE C. PEREIRA (Modernized Trade Acceptances, p. 54) came to this country from London in 1929 to learn the banking business. He is with the First National Bank of Boston. F. BRADSHAW MAKIN (The Origin of Treasury Bills, p. 64) wrote "How Britain Uses Treasury Bills" in last month's issue. He is an English economist.

J. W. MILLER (How to Chart Management, p. 67) is assistant auditor of the Fort Wayne (Indiana) National Bank. GEORGE R. SMITH (Collateral Life Insurance, p. 74) is cashier of The Commercial National Bank of Demopolis, Alabama.

BANKING'S Contents, May 1937

BANKING'S Advertisers, May 1937

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BANKING'S DIGEST—MAY 1937

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Dividends Nobody Declares

TODAY each and every one of you received hundreds of dividends. Not in the form of checks. No. In a still better form—in goods.

As you dressed this morning, you received a dozen dividends, all of the sort that nobody declares. Every textile mill that contributed to the making of your clothes paid you such an undeclared dividend. You took profit on several great industries, on several inventions older than these United States. A true profit, too! Something over and above all the money and labor everybody ever put into the industries.

Suppose that Eli Whitney had never invented the cotton gin. What if we had to separate cotton seeds from the fibre by hand? The experts say that, to furnish all the cotton we now use, about 37,000,000 people would have to work full time just to do the work of that one machine. That's about three out of every four workers in all America! So the odds are three to one that you'd be spending your life combing seeds out of cotton.

Suppose nobody had ever hit on the spinning machines. About one out of every ten workers today would have to spin by hand to keep you supplied with clothes on your present standard of living. What if Elias Howe hadn't invented the sewing machine? Another worker out of every ten would have to sit all day stitching away on your garments.

Do you see the absurd outcome of these calculations? Take away the six basic inventions for the making of clothing alone, and still maintain present standards of dress; the result would be that 95 out of every 100 American workers would be absorbed by the clothing industry alone.

Now, this is one way of proving to you that most of your cotton is pure velvet—if you get what I mean. No matter how much gold or other form of money people might have, they wouldn't be able to live as we do today unless, at every moment, they were receiving the hundreds of undeclared dividends from thousands of inventions, improvements and industrial developments in the form of goods far in excess of anything men could produce without machines and factories.

Without plows and cotton gins and looms, the United States couldn't support more than 10 or 12 million people on anything like our modern standard of living.

Money is worth only what money can buy. The dividends that nobody declares are so fat that money in your day and mine buys more than ever before; more in quality and more in quantity. It buys most of all in our own country simply because our ancestors and our business leaders of our own age have been building thousands of fruitful devices into our environment. We all are drawing dividends on these devices and they yield us the most important things of life. We are getting the profits on perhaps 25,000 inventions, getting them in daily instalments and enjoying them as we get them, too. We are getting them in the shoes we wear, in the oatmeal on our breakfast table, in the street car that carries us to work, in the electric light bulb under which we read, in the elevator that whisks us up twenty stories to an office, and in everything also that our forefathers have built into the American environment. Machines are as truly a part of the American landscape as are apple trees and brooks. And they are almost as common too.

This is how it happens that anybody who lives in our environment becomes, in the genuine sense of the word, richer than people in less well developed places—richer, no matter how much money he happens to be taking in. In such a strange world the wealth that is measured by cash on hand loses much of its significance. Life itself grows richer on the dividends that nobody declares.—WALTER B. PITKIN, author and journalist, in a radio broadcast.

Mr. and Mrs. Bank Public

RIGHTLY perceived, every banking transaction and problem has its customer and public relations implications. Consider the basic problem of earnings, for example. Earnings come largely from loans and bonds. Generally speaking, loans and bonds come from or out of two customer groups. One group represents depositors who have more money than they need. The other group represents borrowers who need more money than they have. The bank's function is to serve these two groups of customers and earnings result from this service and relationship.

What is there about these two groups of customers at present that affects earnings? Is there a shortage of the first group—people who have more money than they need? Apparently not, when we look at the deposit totals in our banks. How about the second group—the borrowers—people who want more money than they have? There are plenty, but not enough of them can be considered qualified borrowers. In other words, there is a shortage of qualified borrowing customers. Why? And what can be done about it, if anything.

I suggest, first, a little research along the lines indicated by these questions: How many of former local borrowers are out of the picture today as a result of the depression? How many have you replaced? How many former borrowers have you lost to another bank as a result of unfortunate depression experiences? How many of these have you replaced? How many former borrowers are being financed by other agencies? How many have you been able to get back? How many former borrowers need less financing due to faster fabrication, communication, transportation or other developments? How many former personal loan customers are being taken care of by credit unions and other personal loan agencies? Have you studied this field? Some bankers are increasing their earnings in this direction and are at the same time earning the good will of more people in their communities. Could you reduce your shortage of loan customers if you were as aggressive in building up loan business as you were to build up deposits prior to 1929?

Advertising and publicity men discussed the possibilities

of loan advertising years ago when it was considered almost sacrilegious. Today there is a growing realization that a bank ought to advertise its major product, loans. Some bankers have done an outstanding job in this direction, particularly those who follow up their advertising and publicity with personal calls on all present and prospective borrowers to discuss their needs and bank loan policies and willingness to lend. This procedure does two things: it helps to overcome the impression still prevailing among some people that bankers do not want to lend, and helps to reduce the shortage of loan customers. Proper procedure does not imply a departure from sound banking principles.

It is easy to dismiss the loan problem with the answer, "There is no demand for loans," but that does not solve the problems of earnings. At one time there was no demand for automobiles, radios, electric refrigerators, oil burners, vacuum cleaners, and a host of other products. The demand was created by constantly improving the product and using advertising and salesmanship to make these advantages known. Now millions of units are sold annually at fractions of their original prices. Let us consider just one product. Only 5,000 electric refrigerators were sold in 1921. The average cost was $550. During the depression almost one million units were sold annually and the average price dropped to $195. In 1936, 2,000,000 refrigerators were sold.

Consider the other group of customers, the depositing group, and their relationship to bank earning problems. With deposits at a high peak and loans at a low ebb it is hardly good business sense to drive for more deposits, but I think it imperative to watch day to day relations with depositors. While the majority of banks are doing little to encourage systematic saving, some competitive agencies are doing outstanding jobs of promotion.

Any student of the psychology of advertising and publicity knows that the habits of people can be changed. Ample evidence surrounds us. Although we advocate keeping our feet on the ground, over one million of us took to the air lanes last year. Over 30,000 have already slept, at 200 miles an hour, in sleeper planes, having dinner in one end of the country and breakfast in the other. Man's greatest matrimonial problem—missing buttons—will soon be solved as zippers zip on toward universal use. Houses have been put on wheels and soon you may see the first morgtage go down the highway to parts unknown. Advertising, publicity, and salesmanship played their parts in these results.

The question for bankers to ponder is this: Are the savings habits of my community changing, temporarily or permanently, as a result of present bank policy toward those people who deposit funds in banks? Unless a banker realizes the implications, his present attitude toward excess deposits will reflect itself in his attitude toward the customers represented by these deposits. Although this situation may seem relatively unimportant at present, sometime in the future bankers may be as concerned about the shortage of depositing customers as they are about the shortage of loaning customers today. Then it will be as difficult to alter the situation overnight even as it is now with respect to loans.

In years past, the percentage of loans to deposits was about 70 per cent. Today it is around 40 per cent. The percentage of bonds to deposits has increased from about 30 per cent to almost 50 per cent. What are the customer and public relations phases of this problem? While your percentage of bonds, especially Governments, is abnormally high, a nation-wide educational campaign is in progress to make "baby" bond buyers out of Mr. and Mrs. Public.

What are you doing to retain them as buyers of savings accounts?

In the midst of these changing conditions it is imperative that bankers weigh carefully the customer and public reactions to revised or new bank policies and regulations. A reduction in interest paid or a new service fee may seem to solve an immediate earning problem, but we must be sure that it is not creating a more expensive problem in the future. I am not opposed to service charges and interest rate adjustments. They are necessary, but every bank officer, director, employee and stockholder and particularly the customers and public must be given every opportunity to understand and appreciate their necessity.—A. R. GRUENWALD, Director of Public Relations, Wisconsin Bankers Association, before GROUP I of the Association.

To Succeed in Banking

BANKERS are coming more and more generally to realize that banks must be managed by people with special knowledge and special training. The banker must have a sound background in economics and history and accounting and law and political science, and in addition he must have a mass of special technical information pertaining directly to banking. The basic problems of the banking business today cannot be solved by men who do not possess this training.

Let me stress the necessity of a broad general educational background for men who hope to attain executive positions in banking. For many years there has been a trend in university education toward courses of a highly specialized nature. A glance through the average university catalog would indicate that to a large extent fundamentals are being neglected, while attention is being diverted to the study of practice and technic. Students cut down on their work in economics so that they may study advertising layouts. They reduce the time they spend on mathematics, and study real estate practices instead.

Now I am a practical man, and I should not think for a minute of advocating that a college student be stuffed with useless theory to the point where he is unable to get things done in every day life. At the same time, I am convinced that no man can determine policies intelligently or transact business intelligently unless he has a clear picture of the social and economic organization as a whole, so that he may understand the effect of what he does upon other lines of endeavor. I am aware that professional educators have long deplored the tendency toward specialization in education, and I want to make it clear that they will have support among business men if they attempt to move in the opposite direction.

Obviously, a man who works in a bank or in a railroad

office or in a department store should know something about finance or railroads or merchandising, but my point is that he should acquire such technical information not in the university, but after he leaves it. In the banking field, we have the American Institute of Banking to furnish such technical training for bank employees. The Institute has been of great value in furnishing the technical banking background which has become increasingly necessary for the employee.

During the past few years, however, bankers have come to the realization that even more than this was necessary. The work of the American Institute of Banking was of unquestioned value in furnishing technical information to administrative employees, but there has been growing recognition of the need of further training for the executive officer. With this in mind, the American Bankers Association in 1935 established the Graduate School of Banking, bearing the same relation to the Institute that the graduate school of a college bears to the undergraduate work. Entrance to the Graduate School is open only to bank officers or the equivalent. There are three Summer resident sessions, and the work continues during the intervening Winters with collateral reading and study. The emphasis is on original thinking, one of the requirements for graduation being that each man must produce a creditable thesis on some subject which he and the faculty agree upon as worthy of investigation.

This work is certain to bear fruit. The results will not become apparent at once, but the value to the banking system over the years to come of men possessing such training is obvious.

Problems, however, have been recognized and formulated, and they are being attacked scientifically. Through research and study, we are accumulating the background of information necessary to sound action, and through education we are building men who will be capable of interpreting this information and using it intelligently. On this we base our hope for the future.—Tom K. Smith, President, American Bankers Association, at a dinner of New York Williams College Alumni.

Boom, Bust, and Boom

The present price situation is the outcome of political factors, domestic and international, which have artificially expanded effective demand for goods, labor and real capital, and at the same time have artificially curtailed current supply and future productive capacity. The first group of factors are most important in the international commodity market; the second are dominant in the domestic situation; and both are working together toward increasingly unsound conditions.

Inflationary expansion of production and plant is not yet far advanced here. In fact, recovery from depression levels of output in the United States is far from complete, but further advance is being retarded by shortages of capital, labor and materials. We are already entering the area of commodity price and wage inflation. This is the inevitable consequence of four years' political sabotage of production, combined with dilution and expansion of so-called purchasing power through fiscal deficit financing and devaluation.

The danger of rapid price inflation is now officially recognized and admitted, and the Administration has begun to build its alibis as a basis for appeals for removal of judicial obstacles to further direct control of production factors and prices. Any inflationary boom and subsequent collapse during the next three years will be the direct consequence of erroneous Government policies during the past four years; but business men should recognize now that they will be blamed for it. They should be on their guard against abetting it by reckless speculation or by seeking Government sanction for private production and price control schemes. Another boom and bust will inevitably be made the basis for manufacturing a universal popular mandate for complete Government control and ownership of banks and basic industries. To permit or promote it is part of the strategy of the widespread collectivist movement which now controls the country and aims to undermine and destroy the enterprise system and establish state capitalism under absolute central authority.

In the international commodity market, war preparations, devaluations and depreciations of currencies have stimulated demand. International controls in some commodities have limited supply, though these, as usual, are breaking down with rapidly rising prices. In current price trends in this country these factors are relatively unimportant compared with the consequences of domestic class-war. Though it is the outcome of internal instead of external warfare, the present situation here is a typical war inflation. It reflects an acute deficiency of supply of commodities, labor and productive capacity in face of increased demand, resulting partly from needs deferred by depression and partly from artificial expansion of purchasing power through government borrowing and spending.

There is not much evidence as yet of any marked inflationary monetary and credit expansion in the present picture in this country. Aggregate bank deposits and circulating currency is less than 5 per cent above the 1926 level, and the velocity of bank deposits is 32 per cent below that level. The Federal Reserve authorities themselves have shown that credit and circulation expansion since 1933 has amounted to no more than normal reflation compensating for the depression deflation. The Government's estimates indicate that the expansion of public debt during the depression has little more than offset the decline in private debt. In any case, it is clear that the Treasury and the Federal Reserve System have ample and all possible powers of control of monetary and credit factors. The key to the current price trend in this country lies in the factors affecting production and productive capacity. The crucial fact is that the volume of production is still more than 10 per cent below pre-depression levels. The reasons for this are plain.

Eight years of depression brought enormous obsolescence and depreciation in plant and equipment which have been made up to a relatively insignificant extent. In many industries today real capacity is far below pre-depression conditions. During four years the capital market has been

practically closed by Government control or preempted by Government. Savings have been dissipated by confiscatory capital taxation and Government spending. New saving has practically ceased. New investment has fallen far behind requirements of population growth and of deferred and increased demand for productive facilities.

The working capacity of the labor force as a whole has deteriorated by idleness and has been demoralized by demagoguery. Public relief policies have segregated millions of workers more or less permanently from the effective labor supply for private employment. Public labor policies have forced monopoly prices for some sections of the labor force, kept others out of employment, shortened working hours, limited productivity and crippled production by labor disputes. The effective working force, in terms of man-hours, is today still below pre-depression levels, and its productivity has not been much increased by greater or better equipment in industry as a whole.

These factors alone inevitably mean higher production costs and prices. To them have been added heavier taxation to support the idle or employ them in non-productive work. Finally, taxation and forced distribution of corporate savings now dissipates investment funds and further weakens the ability of industry to expand and improve its productive capacity.

On top of all this have come the international and domestic factors of increased demand. International war preparations, currency devaluations and inflations have intensified it. Liquid capital has been forced into war production and into accumulation of war supplies, or into search for safety or security speculation in foreign money markets. Inventories have been built up in fear of future shortages. Deficit financing for unemployment relief and public work in this country has inflated consumer demand at the same time that it retarded capital investment and restoration and expansion of productive capacity.

Thus the vicious spiral of ascending costs and prices has been started through four years of domestic and international public policies which have disturbed business and investment confidence, sabotaged production and artificially expanded demand. In such a situation inflation is inevitable; but we must not suppose that it is accidental, unintentional or inescapable. Mr. Eccles' recent statement makes this clear. It is the obvious next step in the strategy implied in the President's "emergency" plea for the removal of the Supreme Court obstacle to direct Government control of wages, prices, working hours, and employment, and to expropriation of property. The tactics involved are: Create an inflation scare by allowing weakening of the bond market; plead helplessness of monetary and credit control; indicate the necessity for more taxes to support the current level of expenditure and for direct regulation of prices, wages, hours and employment relations; emphasize impossibility unless courts and Constitution are nullified.

This argument is disingenuous and unsound, but in accord with the obvious basic purpose to destroy enterprise system and establish state capitalism. Except for the influence of foreign war factors, the Government now has all necessary and possible monetary and fiscal powers to control domestic credit and capital market, interest rates and the general price level. Its policies of relief, compulsory collective bargaining, capital taxation and security market control are responsible for increasingly acute shortage of labor, shortening hours, sabotage of production, deficiency of productive capacity and sky-rocketing wages and prices, in the face of large unemployment, all of which underlie the current fiscal inflation.

The only real and honest remedy is to stimulate increase of private employment by reducing expenditure, lowering taxes, decreasing Government borrowing, opening the capital market and enforcing the essential government function of protecting private rights to work and to hold and operate productive property.—VIRGIL JORDAN, President, National Industrial Conference Board, before New York Section, AMERICAN TRADE ASSOCIATION EXECUTIVES.

Old Economic Truths

ECONOMISTS have a code of honor that makes them tell the truth as they see it. And because economic truth is sometimes unpalatable, economists are sometimes misunderstood.

Take a simple illustration. We all want to see higher wages in America and there are millions of people who believe in all sorts of patent plans to raise wages. When the economists tell them that wages cannot be raised by these schemes, they are resentful toward the economists.

In these times of extraordinary economic change it would help us keep our feet on the ground if we would all recognize certain fundamental economic truths. In a brief time we cannot prove these truths. They have been proved already, by 20,000 years of history. I will merely state them.

Here is the first: There is no trick way to raise the wages and salaries of a whole people. Incomes come out of production, and if you want bigger incomes you must have larger production per worker. All the trick ways have been tried, over and over, and they have been flops, every one. When an American worker gets $5 a day and a Chinese worker gets 20 cents, it is because American production is about 25 times as much per worker.

Here is a second truth: Labor-saving machinery and improved methods in production do not reduce the available work for labor. They may temporarily reduce the demand for labor in certain lines, but over the whole country they increase it. In the long run these improvements are the one important means of increasing wages. You can measure the wage level in any nation by the horsepower developed by its machines. Check this some time for the United States and Italy and India and you will see what labor-saving machinery means in high wages.

Here is a third truth: The idea that we are going to have indefinitely in this country a large proportion of our people without employment is wrong. There is no fixed limit of employment in this country or any other. Recently I heard a man on the radio saying that all the needed work in America could be done by 40,000,000 workers. That man was talking nonsense. We will soon have 50,000,000 at work in this country, and in the future we are going to have a labor shortage.

Here is a final truth: Anything that reduces production likewise reduces wages, reduces the standard of living, hurts the people. Sometimes it may be desirable to institute measures that reduce production in some one area, as in the case of reducing unfairly long hours of labor. But the essential fact is that you cannot get more by producing less. The American people get their living from continuous production. On the continuous operation of American business depends every wholesome American activity, every church, every school, every family, every dollar spent by government.

Think these four propositions over. Whenever you hear of some new scheme to improve our economic system, check it against these four. If the proposal runs counter to any one of them, it's the scheme that's wrong, not the proposition. We are going to have rising prices. You will find one answer to the problem of a rising cost of living in these four truths. —NEIL CAROTHERS, Director, College of Business Administration, Lehigh University, in a radio broadcast.

An Extra Measure of Service

WE help the borrower when we make it easy for him to pay off his loan. This can be done if we make loans for longer periods of time and have them repaid in small but frequent payments. It is not hard to prove to a home owner that this method is to his advantage.

Sometimes the home owner gets into trouble and here, especially, is where the human side of banking must play an important part. We should not, of course, arbitrarily take his property from him, nor have we done so. Leniency, patience, encouragement, I believe, have been exercised by hundreds of bankers throughout the country all through these recent trying years.

For example, during 1932 and 1933 many of the banks had to find ways and means of strengthening underwater collateral loans and in some cases this was accomplished by taking second mortgages on the homes of the borrowers. However, one bank as part of its public relations policy decided to discharge these mortgages when the other collateral for any loan increased to a point where it was safe to do so. This procedure obviously accomplished more in establishing friendship and goodwill for the bank than thousands of dollars of advertising.

Other banks during the depression established departments staffed with competent men who were good judges of human nature and possessed with sympathy and ability to help people with their problems. Through these employees, worthy debtors were given encouragement and time in which to pay their debts to the bank.

In one instance that has come to my attention, a man about to lose two parcels of property because of the depression and illness in his family, which prevented his making payments on his debts, regained his self-confidence because he realized the bank had confidence in him, and was helped by the treatment accorded him by the bank. As the real estate market improved he gradually was able to improve his financial condition and save his property.

This human treatment of a borrower did more than aid the bank so far as its loans were concerned. By an intelligent analysis of character a despairing human being was restored without cost to the bank. It is by no means an isolated case. Hundreds of similar cases of helpful and understanding treatment by banks of borrowers could be told, of instances where banks have done much to preserve human values.

The trust department of a bank is an example of fine service. No one will ever know the long hours of patient, difficult work performed by trust officers and their assistants in trying to preserve the principal of trusts, in securing income for beneficiaries, in insuring the support and education of children, in handling funds so that those afflicted in mind or body may have their needs supplied. Many of these trusts are of a sacred character and involve human values. They have been built up from savings and life insurance for the protection of loved ones and dependents. Our trust departments minister to this great human need and the value of the service performed can never be fully measured.—PHILIP A. BENSON, Second Vice-president, American Bankers Association, before the DELAWARE BANKERS ASSOCIATION.

Housing a Nation of Movers

STATISTICIANS are fairly well in agreement that during the next 10 years the American people will require construction of a large number of new homes. Such estimates do not assume any extraordinary developments out of line with past experience, such as might result from a substantial increase in the rate of demolition of existing homes, millions of which are of a substandard character.

Where will the new dwellings be situated? That is a real question, for the American people have always been noted for their ability to move around, and even before the trailer vogue we were described as a nation on wheels.

For example, there was a net migration of 1,750,000 people into the single state of California in the 10 years following 1920. This was the greatest movement of its kind in our history. During the same period, one southern state with about 3,000,000 inhabitants lost some 400,000 persons who moved to other states; however, the state itself showed a slight gain in total population for the period, thanks to a high birth rate, and its principal city increased its population by 35 per cent.

Manhattan Island, where spectacular events are apt to happen first and in a bigger way than anywhere else, provides ample evidence of how fast people can move. It had a population of about 2,200,000 in 1920. The 1930 census showed that nearly a quarter of a million new immigrants and 100,000 negroes had moved there within the decade.

Despite the entry of these 350,000 persons, plus many more white American citizens, whose movements cannot be so readily traced from census data, the island lost 400,000 in total population during the 10 years. Hence it appears that well upwards of three-quarters of a million people, or more than one-third of the persons living in Manhattan in 1920, must have moved elsewhere by 1930.

In a nation where such movements are an everyday affair, it is evident that every business concern, every public utility, and every public official concerned with providing these dwellings and the utilities and public works required for them must be alert to population movements. Otherwise, we may be confronted with extreme, acute local housing shortages in some cities, and others would suffer from over-expansion of subdivision activity and excessive expenditures for utility lines and public works.

The majority of cities must count on a smaller percentage of population growth than formerly, and may do well to use the estimates prepared by the National Resources Committee, supplemented by careful study of special local conditions that may be speeding up or retarding growth.

When will the homes be built? Recovery in home building is well under way. Some 270,000 dwelling units were provided in dwellings of all types which were started in 1936, and of these 205,000 were in one and two-family homes. The number is greater than that during the three preceding years, 1933, 1934, and 1935, combined, and is enough to house a year's increase in population at an average rate of four persons per family. However, we know that demand increased by a substantially greater amount, because residential vacancies in our cities diminished last year.

The estimate by the Federal Housing Administrator, Stewart McDonald, is that from 400,000 to 450,000 dwelling units will be provided in 1937 unless new building should be stifled by sharp increases in building costs.—JAMES S. TAYLOR, Associate Director, Division of Economics and Statistics, F.H.A., before the MANUFACTURERS' HOUSING PROMOTION COUNCIL, Philadelphia.

Capital's Market Place

THE factory system for its development had imperative need for capital, and so I think it is not without great significance that the accelerated growth of our modern security markets paralleled the growth of our modern factory system. Certainly it is true that the nations which, unlike those of Europe and the Americas, have not developed organized security markets, have not so broadly participated in the remarkable advance of living standards during the past century and a half.

It is not difficult to understand the need which factory production, and the development of rich natural resources, has for capital markets. When production was carried on by hand in local areas and under many small proprietorships the resources of separate individuals or small groups of individuals were adequate each to supply the meager tools required in the various industries and trades. The factory and other industrial systems involved the creation of very much more expensive power plant and production machinery. Accordingly, the corporate form of conducting industrial activity was developed in which the capital of many individuals was assembled through the public sale of securities. This made necessary security markets in which tokens of ownership might be bought and sold.

Without a method of assembling capital like that provided by wide-spread distribution of ownership, factory and other industrial systems could not have functioned. It might equally be said that without such wide-spread ownership security markets would be superfluous. The two are mutually dependent and mutually helpful. Side by side down through the past century and a half, they have been major contributing factors in shifting the burden of economic drudgery from man to machinery and in lifting the living standards of great masses of people from mere subsistence levels to those of comparative abundance. The part that organized security exchanges have played in this evolution has been truly impressive and is one of which those who have devoted their lives to the security business may justly be proud.

But no fundamental development affecting large numbers of people, and proceeding as rapidly as has this growth of an industrial civilization, is likely to take place without engendering numerous growing pains and social problems. There have been abuses of the factory system, there have been abuses of the money and banking system, there have been abuses of the security markets. There have, indeed, been composite abuses of all three simultaneously, if we may consider a great war as a manifestation of the new industrial processes that might well have destroyed the new industrial civilization. Nor can it be said that the problems created by the rapid growth of the industrial and financial mechanisms have all been settled.

In meeting the problems of security markets the exchanges labor under a somewhat unique handicap. In the factory, or mine, the management has control of men, materials, and operations, but a security market is a public market. The organized exchanges provide market places, but their facilities may be used by all. That which is made in a security market is a price, and it is the public which makes it. The public is not subject to the direct control of exchange authorities. Like the telegraph companies, the exchanges provide facilities for doing business, but they do not write the messages. The ultimate essence of practically every problem of the exchanges that affects the public is in terms of what happens to prices.

The development and perfection of the physical facilities of a market are both tangible and visible. But just as important as these is the increasing realization of the vital part that security markets have played in the beneficial development of mining, manufacturing and distribution, and the determination that the contribution of these markets to future developments will be a high order of perfection.

The modern exchange is a marvel of mechanical efficiency in that it provides the means whereby the buyers and sellers of a far-flung empire may meet on equal terms in brief periods of time. The prices made on its floor register the desires, the hopes and the fears of myriads of people. It is with no wish to preach that I say that in addition to a building which,

after all, is merely bricks and mortar, stone and steel, in addition to the mechanisms designed to give rapid, adequate service, there must be within it an intangible something which is hard to define. There must be a deep sense of obligation to maintain a high standard of business ethics; a compelling desire to render what might be called the essence of fiduciary service.

Then indeed does an exchange become great and the reward is a more accurate public knowledge of its functions and operations, a release from public hostility and real freedom in the maintenance of an efficient, open market place.—CHARLES R. GAY, President, New York Stock Exchange, at a dinner celebrating the opening of the new Toronto Stock Exchange building.

A Mortgage Reserve System

THE Federal Home Loan Bank System, like the Federal Reserve System and the system of Federal Land banks, represents another great constructive step taken in the history of our monetary system to bring greater stability to our financial structure, to buttress it against shocks caused by panic psychology and to provide greater safeguards to home ownership and sound mortgage investment. The creation of the Home Loan Bank System makes possible a permanent solution to the difficulties inherent in the complete lack of organization of the machinery for home mortgage credit.

The System constitutes a nationalization of its 3,780 member local thrift and home financing associations, and represents a pool of their resources, a studied diversification of their risks, a cooperative alliance for greater solidarity and voluntary submission to accepted safeguards of sound lending practices. It provides a medium for safely placing idle funds at the disposal of those institutions where a temporary scarcity of funds exists. Moreover, it presents opportunities for exchange of information and experience leading to higher ethical standards of business and to greater simplicity and uniformity of procedure. In other words, the Federal Home Loan Bank System provides greater safety and greater reserve resources against untoward developments in the field of urban mortgage finance, just as the Federal Reserve System protects the commercial banking system and the Federal Land banks provide similar safeguards from the farm mortgages of the country.

The 12 Federal Home Loan banks and their members constitute the largest mortgage reserve organization in the world. The Federal Home Loan banks make no loans direct to home owners. In each case, the funds of the bank system are advanced on short or long term loans to qualified thrift and home-financing institutions. Practically all loans are made to institutions holding membership in the bank system and on shares of its stock, although loans may be made on less favorable terms to approved non-member institutions engaged in home mortgage lending. In slightly more than four years, the banks as of March 6, 1937, had made total advances of $294,388,000 and had received repayments of $152,697,000, leaving a balance outstanding of $141,691,000.

In addition to extending local thrift and home financing facilities, the Federal Home Loan Bank System has provided a reservoir of credit, assuring greater liquidity and greater flexibility under either normal or emergency conditions. Advances by the banks to local lending institutions may be made for any purpose, but are mainly for the construction or renovation of single-family moderate-cost residences, for the purchase of small homes or for the refinancing of existing mortgages on residences of medium value. The present total of $145,000,000 in outstanding advances to members is still far from exhausting the $973,000,000 legal borrowing capacity of members. The steady rise in the total of outstanding advances during the past year, however, marks a significant increase in the utilization of this total borrowing capacity, coincides with the recent sharp increase in the rate of residential building and is directly attributable to the increasing demand for home mortgage loans throughout the country.

The handling of the long term amortized loan in the small amounts necessary for most home financing is a highly specialized business. The making of loans on homes should be the major interest of the institution to insure expert knowledge of real estate conditions and mortgage activity. Local management and responsibility are desirable to assure the most intelligent handling of mortgage loans. Since the business has profound social significance and affects the entire community, the principal source of funds should be the savings of the community. Benefits should be mutual and unfair profit through exploitation should be impossible. With these principles in mind, the Federal Home Loan Bank Board is endeavoring to develop a sound national program of home mortgage finance.

In the operations of the Federal Home Loan Bank System, there are three conditions which are especially favorable to such a development. First, the responsibility for each individual loan is carefully placed directly upon the institution making that loan. From this responsibility there can never safely be any escape. Sound loans made by local institutions to local residents on local property have an element of safety that has seldom been attained in less intimate and more centralized lending. There are relationships between lender and borrower and between lender and property that are conducive to safety. The bank system favors the maintenance of direct personal responsibility as a check against unsound lending.

Second, inherent in the bank system itself is provision for diversification of risks. Diversification begins in the local institution, which is encouraged to provide itself with a variety of loans on diversified types and locations of property. Local diversification is supplemented through the regional banks by state and regional diversification and through the national system by an inter-sectional and national diversification. In handling the funds of member institutions and in making advances to them, the bank system keeps a watchful eye over the sectional and local trends and the extent of diversification accomplished in actual practice.

Third, the safety of this national system of home mortgage finance is heightened by the provision, increasingly applied, for the amortization of loans by regular systematic reduction of principal. Wherever the gross amount of the

obligation is steadily reduced, there is, of course, a correspondingly steady increase in the security underlying the loan. Moreover, the increased use of the amortized loan tends to make lenders assure themselves that the borrowers are actually purchasing homes *within their means*. Obviously, it is unsound, even where there is good character risk, to make a loan on an investment which is beyond the borrower's capacity to pay. As a corollary, to determine the true value of the proposed investment, there is a tendency on the part of all engaged in mortgage lending to make more careful appraisals of property values and to guard against inflated prices. The Federal Home Loan Bank System is developing exactly the kind of mortgage reserve facilities which are needed to prevent the home losses of the depression just passed, and to establish a permanent basis of confidence for the safe and equitable financing of homes.—JOHN H. FAHEY, Chairman, Federal Home Loan Bank Board, before the MUNICIPAL BOND CLUB OF NEW YORK.

Yardsticks for Real Estate

THE time is coming when only an expert of proved ability and integrity will be permitted to make real estate appraisals. This is because real estate is no longer simple. It has become highly complex because it is so closely related to the complex economic, social, and civic affairs of the human race. Value is basically the ability of wealth in one form to command wealth in another form in exchange. The rule-of-thumb appraiser, the equation-minded appraiser, and many of the rest of us find it difficult to remember that value results always from a combination of the three basic factors of human need, human desire, and purchasing power. Real property has no market value unless someone needs it or wants it, and possesses something of value to offer in exchange for it. That is foundational. It is the first great fundamental of appraising.

The second fundamental is the fact that value is never stable. It is always in a state of flux. It varies from place to place and from time to time. With the ebb and flow of human affairs, the need and the desires of people for a given type of real estate change. There are changes also in the supply, in the ability of people to buy property, and in the ability to pay rent for it. In fact, these are the only things that do affect value—variations in need, variations in desire, and variations in purchasing power.

The third fundamental is the fact that no one yardstick is yet known which is of itself an infallible standard for the measurement of market value. There are only three yardsticks—if they may be called that—for gauging the amount of value possessed by a property. These are: sales prices, costs, and income capitalization.

What the appraiser undertakes to do, fundamentally, in estimating market value is to express in terms of money the equilibrium of human need or desire for that particular property on the one hand with ability to offer other wealth in exchange for that property on the other hand. This is what the appraiser must measure in order to make a supportable estimate of value, and this is the reason why he will always surely miss the boat if he confines his attention solely to the physical property.

He must, of course, make a thorough analysis of the physical property; but that analysis will be meaningless unless it is related to a number of important things entirely outside of the property itself. The property must be interpreted in terms of the needs of the people in the community, in terms of their attitude toward the location of the property, in terms of their desire to use the property, and in terms of their ability to pay for that use. The appraiser must study population trends, marriage rates, racial distribution and density, standards of living, moral and ethical attitudes of the people, civic affairs, wage levels and trends, unemployment, vacancies, and scores of other neighborhood factors that closely affect the utility and the desirability of every piece of real estate in the community. All of this involves neighborhood as well as property analysis.

With the basic facts in mind, let us note the futility of relying upon front foot, square foot, or cubic foot standards—of relying entirely upon the multiplication of the gross income by the mystic figure seven—or of using any other device that does not automatically reflect and gauge the living, changing forces of human need and desire in relation to financial ability.—E. L. OSTENDORF, President, American Institute of Real Estate Appraisers, before the NORTH CENTRAL REGIONAL CONVENTION of the NATIONAL ASSOCIATION OF REAL ESTATE BOARDS.

Farms Can "Come Back"

FARM land is perhaps the only commodity in the world which need not depreciate through use. It is never afflicted with a second-hand value. And the type of management which prevents its depreciation also improves its income, its real value, and its saleability.

Its earnings may be restricted through temporary periods of low production and prices, but under capable management it can always "come back," and over the long-haul provide an income far greater than any other investment of remotely similar safety. It is not an exaggeration to say that no owner of reasonably productive land, well-managed, ever had to give it up for financial reasons or because it failed to provide a living for the man who operated it.

Every farm buyer should insist on having the answers to the following simple questions: (1) what kind of soil?; (2) how improved?; (3) location?; (4) taxes?; (5) valuations?

Knowledge, training and experience are required as much to manage farms as to manage city properties. Specialists do the best work, get the best results in both cases.—J. P. CLAASSEN, Vice-president, Farmers National Company, Omaha, before the NORTH CENTRAL REGIONAL CONVENTION, NATIONAL ASSOCIATION OF REAL ESTATE BOARDS.

Long Hours and Supper Money

THE matter of employer and employee relationships is an engaging field for exploration and for vast improvement. The experience of a banking enterprise gradually expanding and then comparatively suddenly shrinking its organization has carried with it considerable distress. It will be said, perhaps, that in the face of our unparalleled economic disturbances the consequences for employees were unavoidable. It would serve no useful purpose now to express disagreement on that point as to the past.

I do feel, however, that the thousands of personal catastrophes can be minimized in the future by better planning that will recognize a social obligation, not to create unnecessary employment, that will attract to the permanent banking organization more individuals than the enterprise can sustain over long periods. The problem is recognized, I believe, and will, I hope, be earnestly studied. I imagine that from these studies there will emerge ideas which will tend to meet the dilemma by providing more rather than fewer places of employment in a sure, permanent organization for banking.

You will no longer witness—at least I hope you will not—the long and irregular working hours you and I ran into, with 75 cents for supper money, when we started in the banking business. You will hear of suggestions for shorter hours. You will hear of plans for longer vacations, perhaps two periods of vacation in each year. You may even hear proposals for sabbatical leaves for loyal employees. And why not? In education and in banking there are found kindred services in the public interest. In the one, persons serve in the education of our children and youth. In the other, persons devote themselves to a service an important purpose of which is to safeguard the financial means that will buy education or will support its institutions.

Our economy has been capable of providing a comfortable subsistence and liberal leisure for a population of more than a million persons actively engaged in the field of education. To reach similar results in the field of banking it would have to concern itself with a population of less than half that number. Also, there will be increasing concern in banking for adequate educational facilities to help individuals toward a better understanding of their responsibilities and duties. There will be much more thought, too, on the matter of social security and pensions.

Industry is confronted with these problems. Its problems must be dealt with from the standpoint of her diem employment. Solution is sought in the direction of higher wages for each day of work, shorter hours are considered for each working day, and the whole pattern expands and contracts with seasons and public taste.

In our enterprise thinking will run more in line with greater stability of pattern, and will deal with matters of weekly or even monthly hours of work, norms of annual or semi-annual vacation periods; and auditors and comptrollers will be called upon, not to discover how expensive future processes will be to their respective banks, but to envisage and explain how skill and efficiency of management will be able to accommodate the new financial requirements that increasing social obligations will bring with them.

Future events and the changes they bring with them will continue at breath-taking pace. The new problems that changing conditions will pose will be met more by cooperation and less by competition. Mystery has been a feature of the competitive concept. Clarity and sympathetic understanding must be the bases for cooperative action.—AUGUST IHLEFELD, JR., Executive Vice-president, Savings Banks Trust Company, New York, before the NEW YORK CITY BANK COMPTROLLERS AND AUDITORS CONFERENCE.

Insure with Care

BEFORE making a decision as to his insurance requirements, the banker should first determine and then analyze the hazards involved. This is accomplished by listing those to which he is exposed, regardless of their frequency or importance. Each hazard should be considered. The bank's operations should be studied to see whether the hazard can be eliminated or minimized. If it cannot be eliminated, a decision should be made as to whether it is a risk the bank should carry or whether it is a risk which should be insured.

In his consideration of this subject the banker may secure assistance from local, county, state and national bankers associations, chambers of commerce or other groups of which he may be a member. Banking publications, the insurance press and the press generally are also helpful in giving information about the hazards involved. Supervising authorities, particularly the Federal Deposit Insurance Corporation, take a more or less active interest in the subject. Finally, insurance agents, brokers and companies are coming more and more to make surveys of the insurance needs of customers, which surveys are most helpful. These surveys must necessarily include uninsured as well as insured hazards.

A comprehensive analysis would take up each hazard to which the banker is exposed. The hazards surveyed should be not only those conducted in the bank's own name, but should include those conducted where the bank is interested as pledgee, bailee, trustee, custodian, agent or in any other capacity, and whether the bank is liable. The banker also has an interest in insurance carried by his customers. Mortgage and title insurance come readily to mind in this connection.

Having subjected his operations to a searching analysis, the banker is ready to deal with insurance companies and he may well ask himself what he is entitled to receive from them for the premiums he pays. With the exception of life, insurance contracts afford protection against contingencies which are not bound to happen. It is an acknowledged principle of insurance that the insured should act in all respects as if uninsured, and the fact that he has insurance protection

gives him no right to relax efforts toward avoiding, preventing or minimizing loss. It is well for him to remember that the basic theory of insurance is to protect against loss—not put a premium on loss.

The banker, of course, has the right to expect prompt and willing indemnification when the hazard insured against occurs. He also has the right to expect the insurance company to study his operations and give him the benefit of any suggestions it may have which will prevent or minimize loss. He has the right to expect the company to review his risks periodically. He has the right to expect that the scope of his coverage will be precisely defined should he raise any question regarding it. He has a right to expect companies to give consideration to insuring new risks as they develop, although he has not the right to expect that all risks will be insured. There are limitations to insurance, and some risks either violate principles of sound underwriting or they are too great to underwrite. The companies have to underwrite risks with a view to continued solvency and in the hope of making a profit commensurate with the capital investment. The banker, on the other hand, has a right to expect that premium rates will reflect experience and that they will rise or fall as the experience is unfavorable or favorable. In order to round out the picture, one more point should be mentioned—the necessity for good faith and complete mutual confidence in arranging the contract of insurance.

The desirability of a complete insurance survey periodically is unquestionable. It is advantageous to take as broad cover as possible. The question of cost should be considered when deciding whether to carry insurance, but it should not be too strongly emphasized once a decision has been reached that insurance should be carried. For banks generally, there is no agreed percentage which the cost of insurance should bear to the total cost of operation. Coverage should be secured in as few contracts as possible from as few companies as is considered desirable. All related insurance should have a common expiry date. It is important that the insurance contracts carried be supported by adequate information in relation to values.

In negotiating insurance a well-qualified agent or broker can be of real benefit. Insurance companies should be selected not only for their ability to pay in case of loss, but also for their ability to give service in avoiding or minimizing loss. It is desirable to look into the experience and quality of their management—their greatest asset. It is desirable that the handling of insurance be placed in charge of a single department or individual charged with the duty of keeping abreast of technical insurance knowledge, particularly with reference to new forms of contracts and the rate situation. While general rules can be laid down, the banker will discover that his insurance is a matter which requires individual treatment.

The banker, having looked at insurance, recognizes a neighbor who has many common burdens and mutual interests, whose well-being is closely bound to his own. His self-analysis of the risks of banking is beneficial to the insurance company and himself. In a changing world, it is a source of comfort to work out his problems with some one who appreciates their magnitude and has a genuine interest in them. Nor is the banker limited to a selfish position in the relationship as he can do much to assist the insurance company. Perhaps it is not too much to say that by this viewing of insurance the banker will gain a knowledge of facts and a breadth of understanding which will increase his competence as a banker and his value as a citizen.—Richard T. Wood, Manager, Bank Division, American Surety Company and the New York Casualty Company, before Passaic County (N. J.) Chapter, American Institute of Banking.

Trends in Municipal Finance

WE are probably entering into an era when debt contracts will be considered more carefully from the standpoint of the debtor. The latter will give more attention to the type of obligation issued and to the manner in which its sale is negotiated. The more extensive use of callable or optional bonds may come about. It is clear that such an obligation is generally advisable for special assessment issues, for certain types of revenue obligations, and many other purposes. There ought to be a more general use of the callable or optional bond at a time of unusually high interest rates.

Municipalities will tend to formulate a type of obligation that will be most attractive to the market. They will employ investment counsel to place the issue to the best advantage. Industrial corporations, the Federal Government, and some states like New York, watch the market, plan their type of obligation to meet their needs, and arrange their financing in an orderly manner. Such a scheme may well be extended to the larger municipalities and counties. These considerations suggest an important place for the investment counsellor in the preparation of a prospectus to interest lenders and to negotiate the municipal loan. The same considerations suggest the necessity of leaving the larger units of government free to negotiate unhampered by unnecessary and restrictive state legislation. Incidentally, it would seem unwise to take away from the larger cities and counties the right to use sinking fund term bonds.

The social changes that have been going on in recent years have important implications in the field of municipal credit. What, for instance, would be the result if a substantial portion of the aid given by the Federal Government for unemployed relief costs should be suddenly withdrawn? If there were no compensating help from the states, it would be fatal to the credit of most municipalities. If Federal assistance is withdrawn, certain states will find it impossible to adjust their revenue structure to provide necessary assistance. If the present volume of unemployment relief costs, or any substantial portion of it, should remain and the Federal Government should withdraw any substantial portion of its financial assistance, many important cities and counties would find it impossible to meet their operating costs, debt charges, and welfare services.

There is, in my opinion, no further justification for borrowing for unemployment relief purposes by states or local governments. If the revenue structures of these governmental units will not permit them at this time to meet such charges from current revenues, then it is difficult to forecast

when they can do so. The state and local governments that continue to borrow for relief purposes seem to be following an unwise fiscal policy.

The social security acts of the Federal Government and many of the states are putting an added burden on the total revenue structure that sooner or later is bound to have some local repercussions. While it is true at the present time that localities have not been called upon to any great extent to meet such charges from local funds, they will be called upon to bear part of the administrative costs and will find it less possible to obtain a share of state administered taxes to relieve other sources of local revenues. We must bear in mind through all this that continuing social changes make it necessary to adjust the methods of municipal finance to meet the changing problems.

There has been a marked trend toward the more frequent collection of taxes. Quarterly payments are now in general use throughout New Jersey. The officials there report that the plan has been of benefit to the cities, that taxpayers generally approve of it, but it has brought added collection costs which they believe are more than justified by the results. Inquiries coming to the office of the Municipal Finance Officers' Association also indicate interest in monthly and bi-monthly tax payment plans.

Municipal expenditures will continue to increase if the present services alone are retained. How can it be otherwise with higher commodity prices and rising salaries? There also seem to be new activities constantly added in the social services and increasing demands for pensions by public employees in order to equalize the benefits of public employment with those of private employment under the Federal Social Security Act. A study of national income recently published by the Bureau of Foreign and Domestic Commerce indicates that the total compensation of government employees has about returned to the 1929 level. As a matter of fact, the total salaries and wages of Federal employees are 101.3 per cent, state employees 109.2 per cent, educational employees 103.7 per cent, county, township and minor civil employees 89.7 per cent, and city employees 83.6 per cent of 1929 levels. It is noticeable that employees of cities, particularly the civil employees, are receiving far less salary restoration in proportion than other public employees.

Here is a question of more or less academic interest. There is a trend toward the breakdown of our traditional scheme of local self-government in the United States. It is sanctioned in many cases by the same people who are most interested in upholding the traditional American form of government. The reasons for asking larger units are largely financial such as: (1) the added cost of administering small units; (2) distribution of the burden of unemployment relief charges; (3) and because state collected taxes are spent by the state or the rules and regulations for spending are made by it. Here is a conflict which must be recognized between a system of government built up around thousands of small local units in daily touch with huge industrial and commercial units. There is a genuine question whether a national government of many small units can survive in competition with a commercial system based on financial and industrial oligarchies. Yet if we want to conserve the American Government in its traditional form, we must recognize that it rests upon a base of small governmental units; that such a system costs more, but may be worth it to preserve local autonomy and our entire democratic scheme of government.—CARL H. CHATTERS, Executive Director, Municipal Finance Officers' Association, before the Central States Group of the INVESTMENT BANKERS ASSOCIATION OF AMERICA.

Machine-Made Jobs

NOTHING is better established in economic theory or in economic history than the general proposition that, given time, new technological advance leads to increasing rather than decreasing demand for labor.

The contention that technological advance makes unemployment is old, and radical writers especially have repeated it again and again. Thus Sismondi, one of the precursors of Karl Marx, writing in the first half of the 19th century, held that the state should attempt to curb production and put "a drag upon the too rapid multiplication of inventions."

Workmen themselves, seeing the new machine as a competitor, have often resisted the introduction of new technology. During the Industrial Revolution in England, a group of people known as the Luddites destroyed the machines as they were introduced. In a single riot, over one thousand new stocking frames were destroyed, houses were burned, and inventors were forced to flee for their lives.

Nevertheless, out of the Industrial Revolution which came as power machines took the place of human labor through new invention, the modern world has been lifted to a level of comfort unimagined in the third quarter of the 18th century before this great revolution came. With rising standard of life such that the workman today enjoys comforts and luxuries unknown even to the kings of the 18th century, there has come an almost incredible increase in population and in employment.

In economic theory the matter is very simple. The labor-saving machine cheapens production. In the simplest and easiest case, namely, that in which the demand for the product is highly elastic, so that at a lower price a greatly increased amount will be consumed, and in which competition among producers leads to a prompt reduction in price so that the consumer gets the benefit of the cheaper production, more labor will speedily be employed in the same industry than before the new invention came. Thus, for example, in 1925, though automobiles could be produced in one-sixth the number of man-hours as in 1910, the number of workers had increased from 51,294 in 1910 to 197,728 in 1925—an increase of 285 per cent.

What proper weight is to be given to concern for technological unemployment and to the fears of the laborer who finds his old job destroyed and his old way of making a living disturbed by the coming of a new machine?

The answer to this is, first, that on no account must we retard or interfere with the most rapid utilization of new inventions and new ideas. The further answer is that technological unemployment is a far less serious matter in the modern world than it was at the beginning of the Industrial

Revolution. A displaced laborer at the beginning of the Industrial Revolution was a master craftsman. He had spent his seven years as an apprentice. He had a static world about him. The first impact of the machine was on his craft alone, and if he were to go into another occupation he had a long and laborious process of learning another craft.

In the world today, when all occupations are dynamic and when change is coming in all of them, new openings are much more readily found. The workman, shifting from one factory to another, learns his new job, not in seven years but in six months or less. It was a very difficult matter for the laborer in England in 1760 to move even to another village where other work might be found. The population of the United States as a whole, however, has become highly mobile, particularly since the coming of the cheap automobile and the immense highways. It is easier by far to go to a new place and to get into a new occupation. The problem is much less difficult than it used to be.

But the modern conscience has become far more acutely sensitive to the problem of the displaced worker than it used to be. We have grown rich enough in the United States today so that we do not have to take for granted the inevitability of poverty for the masses of men.

We must recognize that too much of the burden of the shifting and change which new technology involves has fallen upon special groups of the working people and that it is right that this burden should be diffused over the whole population. It is no longer necessary that there should be tragedies for individual workers as the result of technological changes beneficial to the population as a whole. Unemployment insurance or the dismissal wage, well handled public labor exchanges, institutions for the re-education in industrial techniques of displaced workers, public relief of other kinds for displaced workers that will prevent tragedy, we can afford and should provide.

And I would broaden the proposal to cover not merely workers displaced by technological change, but to cover workers who might be displaced by changes in public policy, as, for example, a radical lowering of tariffs, which would, I am convinced, be immensely beneficial to the country as a whole and to the laboring population of the country as a whole, but which might, none the less, lead to certain displacements among workers in industries where the percentage of hand work is large and where the percentage of machine work or mass production is low. The technological changes should come, and the tariff readjustments should be made, but we should not forget such workers as are displaced by the changes. Over the long run, the gain is obvious. Even in the short run, the gain for the great bulk of the people is enormous. But, in the short run, the displaced individual worker may face tragedy, and this should not be.

Certain general principles with respect to this problem may be laid down, even though the writer does not venture a detailed programme. It is clearly necessary that the relief afforded should be adequate to prevent tragedy. It is equally obvious, I think, that the relief should not be so generous as to take away from the displaced worker the incentive to readjust himself as promptly as possible. It is not necessary or desirable that society should undertake to give him his accustomed income; because to do so could, in too many cases, turn a self-respecting, independent man into a parasite.

I think that the evidence is clear that, taking industry as a whole, rapid technological improvement is a dynamic and energizing factor rather than a factor slowing down business and reducing employment. Look back to the great spurt in business from 1921 to 1923, and the large place which improved technology had in it. The new technology cheapened production. It reduced costs. The reduction in costs made possible greater profits. The prospect of profits made business men expand activities. It is the prospect of profits that makes for expanding business, as it is the falling off of profits that leads to business reaction.

What lag there is in re-employment of men displaced by technological advance is not a lag in the general volume of employment, but rather is a specific lag in the re-employment of the particular men displaced.

Evils and abuses we have in our economic order, and a wise social policy will seek to eradicate them. But a wise social policy will not interfere with the efficiency of industry, the growth of technology, the flexibility of the markets, including the market for labor, and the accumulation of capital. Social policy aimed at evils and abuses, which introduces rigidities into the industrial system, which slows down technological advance, which checks the accumulation of capital and which limits the initiative of business enterprise, will do so much more harm than good to the interests of labor itself that it would be incredibly short-sighted for us to adopt it. A wise public policy will work with and not against the great dynamic forces which, since the beginning of the Industrial Revolution, have been lifting the masses of men out of starved, narrow, stagnant and brutal lives.—BENJAMIN M. ANDERSON, JR., Economist, The Chase National Bank, New York, before the ECONOMIC CLUB OF DETROIT.

The Modernization of Mortgages

IN the recent past, the average small investor in real estate securities invested in what are known as mortgage certificates or mortgage bonds, both of which represented, in effect, participations in specific mortgages or in groups of mortgages. The first class, namely, mortgage certificates, were invariably guaranteed by mortgage companies or institutions of like nature, and the latter, as a rule, were unguaranteed bonds. The collapse of the real estate market has shown that the guarantees proved to be worthless and the collateral behind the bonds inadequate. These types of investments were considered legal investments for trust funds and as a result, great suffering was caused to all classes of beneficiaries, including incompetents, orphans, infants, widows and the like.

Those of us who have been assigned to the task of attempting to rehabilitate and salvage these investments are firmly convinced that this method, heretofore used, of distributing mortgage investments, is fundamentally unsound.

During periods of emergency great reforms are conceived. These periods create an insistent demand for measures which

were impossible of performance during normal times, although always highly desirable. Distress and disaster are often of a compensatory nature. They act as an impetus to great advances. The proposed mortgage bank is, we think, a step in the direction of a sounder and more desirable method of real estate financing.

One of the chief defects in mortgage financing of the past was the short term mortgage. Where an owner of real property places a mortgage payable within three or five years, he is practically in default the minute he signs the bond. It is never contemplated by the lending institutions that that loan be repaid out of that property within that short period. He is at the mercy of the lending institutions the moment that bond and mortgage are delivered.

The mortgage bank will stand for the principle of long-term financing, with amortizations to keep apace with physical deterioration and obsolescence. That principle—already accepted by our governmental agencies—it is hoped will be given an impetus by the mortgage bank.

The sale of participations in a specific mortgage is another evil of the past that will be eliminated by the proposed mortgage bank. With the best intentions in the world and backed by the soundest appraisals, lending institutions will frequently find that some of their investments in specific mortgages go bad. Immediate loss to the participants in that mortgage is thus caused. Under a mortgage bank, where all the mortgages are collateral for all the debentures issued to the investing public, no loss on a specific mortgage can seriously jeopardize the value of the debentures.

Our experience in the Mortgage Commission—and we have had a broad base to work on, having handled tens of thousands of mortgages and tens of thousands of issues involving hundreds of millions of dollars—has indicated that group mortgages, having a more composite and diversified security base, have withstood the effects of the depression better than the specific mortgages. Comparatively little, or no loss, will be ultimately suffered by the holders of investments in the larger of the group issues.

One of the most serious difficulties encountered by certificate holders was the lack of a real market in which mortgage investments could be sold. This was true, regardless of whether the investment was a mortgage certificate or a collateral bond. In either case, without a serious sacrifice, no market could be found. On the other hand, the debentures of the proposed mortgage banks will be securities listed on the regular exchanges and will always, therefore, be afforded a market reflecting their true value.

These fundamental principles of the proposed mortgage bank will eliminate the glaring defects of the older method of distribution of real estate securities and will afford an opportunity for safe investments consistent with the needs of real estate finance.—BENJAMIN J. RABIN, Chairman, New York State Mortgage Commission, before the NEW YORK BUILDING CONGRESS.

A Healthy Farm Outlook

IN the north central region, to a higher degree than in any other section of the United States, the outlook for urban real estate advance is profoundly affected by the health of the farm outlook, as it is of course by the general outlook for the economic health of our national future. I believe we may say that on this basis urban real estate in our six north central states, Iowa, Minnesota, Nebraska, Wisconsin, North and South Dakota, has the most stable foundation than it has had at any time in the present decade for sound rise of value and sound increase in market activity.

Look at some of the factors:

1. Farm income is rising. For 1936 the cash income of the farmers of the United States from marketing totaled approximately $7,850,000,000, the highest such total since the peak year of 1929, and almost double their cash marketing income for 1932, which was $4,328,000,000. The total annual farm income in the United States now exceeds the total annual payroll of all the manufacturing industries of the country, as those are reported to and tabulated by the Department of Commerce.

2. The appraisal value of farms, and the sales demand for farms, is definitely rising. The Department of Commerce reports farm land values per acre definitely rising in all but two states of the Union (neither of them in this region). It estimates that average values in our north central region range now from 55 per cent to 85 per cent of their pre-war values. In only one state—and that not in this region—have they yet gone higher than the pre-war values. But in Iowa, for example, the Federal figures show farm values 9 per cent higher than a year ago. Further, the upturn in values has been pretty well proportionate to increase in farm income.

3. Farm sales are increasing. It is estimated that approximately 24 farms out of every thousand were transferred through voluntary sale or trade during the year ended March 1936, as compared with only 19 farms per thousand in the preceding year. And while the totals have not yet been compiled for the last 12 months, we all know that the sales rate is accelerating.

4. Farm mortgages are on the most stable basis we have ever known. To be sure, we have undergone the most drastic mortgage revision of our history. But we emerge with a farm mortgage structure built on farm valuations that have had their wartime inflation taken out of them, valuations that can be sustained by today's farm earning power. Further, we have back of our present and our coming farm investment a national farm mortgage banking system in a sense in which we have never had such a system before, for long-term farm credit.

5. Interest costs for farm ownership have been notably lowered.

6. Within the last five years, for the first time in our history, we have developed and are beginning to apply scientific appraisal method in the valuation of farm properties. It would be hard to over-estimate the very great influence this one development is bound to have in stabilizing farm land investment and the farm mortgage structure.

7. The outlook for a more equitable tax situation, for farms as well as for urban homes and other real estate, has definitely advanced.

8. We are coming to have a keen realization that farm land development must be in keeping with the whole national and international economic trend, and, further, we are establishing this principle: Farm development must be the fitting of individual families to a situation in which their ownership venture can be successful.

Farm prices are still, of course, at a comparatively low ebb. But this is the important thing: As a matter of simple fact, there probably never was a time in the history of the United States when farm prices were economically more sound than they are at the present time. And there is sufficient property offered for sale so that we may anticipate no speculative rise in agricultural land.—R. B. WHITAKER, Vice-president, National Association of Real Estate Boards, before the NORTH CENTRAL REGIONAL CONVENTION of the Association.

British Housing Policy

IT is difficult to generalize from our widely extended and widely diversified experience during a period of abnormal conditions (following the War), but most British housing authorities would subscribe to the following statements:

1. The spheres of public and private enterprise in housing are distinct. They should not be allowed to overlap or to compete with each other, but cooperation is beneficial.
2. Public enterprise should be limited to two fields:—(a) slum clearance and overcrowding, where housing conditions are a menace to public health; (b) the provision of cheap housing accommodation at low rentals for the poorer classes of the community who cannot afford to pay economic rentals.
3. Public enterprise, being confined to unremunerative housing construction, must be subsidized either from national or local taxation, or both.
4. Private enterprise in housing should not be subsidized except in very rare and abnormal circumstances.
5. The existence of well managed building societies enables local authorities to cooperate with private enterprise by reinforcing with its own credit the credit of the individual desiring to purchase or build a house.
6. The three greatest incentives to house building and house owning are low rates of interest, low initial payments and reasonable terms of repayment.
7. These three incentives cannot function under a monetary policy which entails high rates of interest, or frequent disturbances of the rates of interest by changes in the bank rate.

The British housing shortage was so severe after the War that house building both by public and private enterprise was generously subsidized.

But the subsidy system was found to have many defects. It did not cater sufficiently for the poorer classes of the community, or for those who wished to live in rented houses. It stimulated competition for subsidies between public and private enterprise. It forced up the prices of building materials. And, moreover, it was extremely expensive, adding not only permanent burdens to the national and local debts, but also annual burdens to the current rates and taxes.

It was, however, not financial stringency, but the genuine discovery of the limitations of the beneficial operation of subsidies, which led to their rigorous curtailment in 1928.

Subsidies to private enterprise rapidly declined from 1928 to 1931, in which year they virtually ceased.

A comprehensive investigation into housing conditions in 1931 led to a radical change of policy. In a circular issued in January 1932 the Ministry of Health limited the housing activities of the local authorities to the erection of small houses to be let at low rentals to the poorer classes of the community. Private enterprise was thereby freed from the competition of the local authorities in the building of better class houses.

The new housing policy adopted in 1932 greatly cleared the situation. It defined the spheres of public and private enterprise, and settled the principles by which each was to be stimulated to supply the housing needs of the people. The Ministry of Health used its powers of sanction to the loans issued by the local authorities so rigorously that by 1934-35 the number of houses they built fell to 41,593. In the past two years, however—1935 and 1936—a much more liberal policy has been adopted. Action to remove slums and to diminish over-crowding are now obligatory on all local authorities, and the issue of loans for these purposes is automatically sanctioned. This liberal policy has already produced a considerable increase in the housing activities of the local authorities, an increase which will continue at least until 1939.

But, as the following statement shows, now that British housing policy has settled down and is being effected on clearly defined principles dictated by experience, it is to private enterprise that the solution of the main problem has been entrusted:

BUILDING ACTIVITY, 1932–1936

Agency	*Number of houses built*
Local authorities, subsidized	205,849
Private enterprise	914,411
Total	1,120,260

As compared with 62 and 67 per cent of the total which were built by private enterprise, with the aid of generous subsidies, in the first two periods, the percentage has risen to 81 in the last period, though subsidies have been virtually withdrawn. The actual figures for this last period, year by year are:—

PRIVATE ENTERPRISE

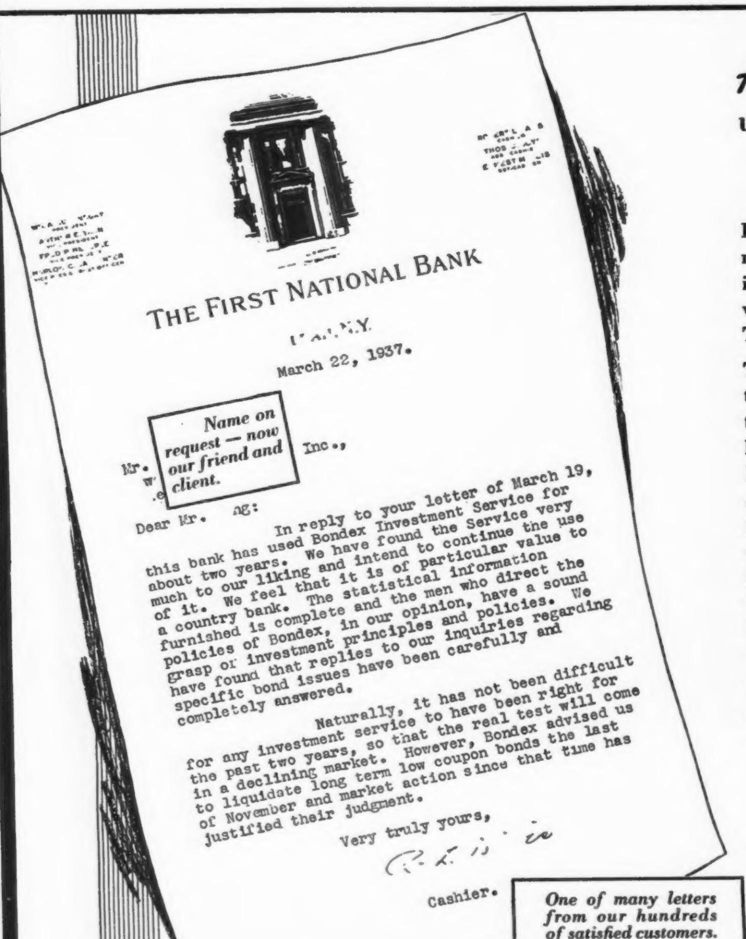
Year	*Number of houses built*
1932–33	144,505
1933–34	210,782
1934–35	287,513
1935–36	271,611
Total	914,411

—SIR CHARLES MORGAN-WEBB, financial consultant, London, before the Great Lakes Regional Convention, NATIONAL ASSOCIATION OF REAL ESTATE BOARDS.

Investment Confidence ....

A SACRED TRUST

THE GREATEST TRUST BETWEEN MAN AND MAN IS THE TRUST OF GIVING COUNSEL
Francis Bacon


THE FIRST NATIONAL BANK

March 22, 1937.

Name on request — now our friend and client.

Inc.,

Dear Mr. ng:

In reply to your letter of March 19, this bank has used Bondex Investment Service for about two years. We have found the Service very much to our liking and intend to continue the use of it. We feel that it is of particular value to a country bank. The statistical information furnished is complete and the men who direct the policies of Bondex, in our opinion, have a sound grasp of investment principles and policies. We have found that replies to our inquiries regarding specific bond issues have been carefully and completely answered.

Naturally, it has not been difficult for any investment service to have been right for the past two years, so that the real test will come in a declining market. However, Bondex advised us to liquidate long term low coupon bonds the last of November and market action since that time has justified their judgment.

Very truly yours,

Cashier.

One of many letters from our hundreds of satisfied customers.

A well-known banker sent us the letter illustrated.

●

Bankers, Trust Company Officers, Investment Account Managers and others acting in a banking or fiduciary capacity are invited to send for a specially prepared Typical Bank Portfolio Analysis.

This characteristic report of our Institutional Counsel contains a tabulation of the sixteen working principles employed by us in the adaptation of Bond Portfolios to impending Economic Trends...this actual "case history" further includes our format of report as rendered to one of our hundreds of Bank Clients. Typical forms for checking markets against our timed recommendations are included... basic trend lines as projected are also furnished gratis.

We are primarily Institutional Advisers serving Banks and Trust Companies.

Your copy of this Typical Portfolio Analysis merely awaits your request. No obligation. We will also send recent Supplementary Bulletins

BONDEX, INCORPORATED

One of America's Soundest Investment Advisory Institutions

1 EAST 57th STREET NEW YORK
120 SO. LaSALLE STREET, CHICAGO